



AIR & WASTE MANAGEMENT  
ASSOCIATION

SINCE 1907

# New ASTM Guide on Climate Change Financial Disclosures *Adding to the SEC Interpretive Guidance*

Presented at:

A&WMA - North Texas Chapter  
May 25, 2010

A.Gwen Eklund  
President, international A&WMA 2010

TRC Environmental Corporation





AIR & WASTE MANAGEMENT  
ASSOCIATION

SINCE 1907



**A. Gwen Eklund**

A&WMA International President 2010

# *Presentation Outline*

- Why An ASTM Presentation at A&WMA?
  - Value of A&WMA's partnering
  - Strategic Plan
- Overview of ASTM
- Review of Recent SEC 'Interpretive Guidance'
- Guide for Financial Disclosure Attributed to Climate Change
  - Scope & Objective
  - Significance and Use
  - Determination of Whether a Disclosure is Warranted
  - Content of the Disclosure with Financial Statements
- ACE



# Today's Environmental Organizations





- Established in 1898
- Not For Profit
- Provides forum for the development of technical consensus standards
- Over 30,000 members from over 100 countries
- 12,000 standards from 140 technical committees

# *Technical Committee Examples*



- Petroleum
- Plastics
- Environment
- Steel
- Soil and Rock
- Consumer Products
- Water
- Fire
- Road and Paving Materials
- Concrete and Cement
- Pesticides
- Ship Building
- Textiles

# *History of E50 - Environmental Assessment, Risk Management and Corrective Action*



- Formed in 1990
- 5 Technical Subcommittees
- 1,200 Members (100 international from 29 different countries)
- 34 Approved Standards
- Meet Face-to-Face twice per year
- Virtual/teleconference meetings as needed

# *E50 on Environmental Assessment, Risk Management and Corrective Action*

**Committee Scope** - The promotion of knowledge, stimulation of research, and development of standard guides, specifications, practices, test methods, classifications, and definitions relating to environmental assessment, risk management and corrective action. The scope of the Committee includes, but is not limited to multi-media environmental assessment and risk management issues including environmental assessment, environmental management, corrective action due diligence, and sustainability.

# *Stake Holders in E50 - Environmental Assessment, Risk Management and Corrective Action*



- E50 Stakeholders Represented
  - Environmental Professionals
  - Geotechnical Engineers
  - Real Estate Industry
  - Banking Industry
  - Lawyers
  - Government Representatives
  - Academia

# *E50.05 Environmental Risk Management Standards – Guides and Practices*

- E2107-06 Standard Practice for Environmental Regulatory Compliance Audits
- E2137-06 Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters
- E2173-07 Standard Guide for Disclosure of Environmental Liabilities
- E2365-05 Standard Guide for Environmental Compliance Performance Assessment



# *SEC Interpretive Guidance on GHG Disclosure*

- **SEC Issued ‘Interpretive Release’ – No New Legal Requirements**
  - Indication that SEC is focused on Climate Change Disclosure
  - Publicly Traded Companies Need to Consider “SEC Focus”
  - Companies Need to Intensify Analysis of Impacts on Operations and Financial Conditions
- **SEC Guidance Topics for Disclosure**
  - Financial Impact of Laws and Regulations Related to Climate Change
  - Indirect Consequences of Trends Affected by Climate Change
  - Potential Physical Impacts of Climate Change
- **Existing SEC Disclosure Requirements**
  - Regulation S-K Item 101 (description of business – materiality)
  - Regulation S-K Item 103 (legal proceedings)
  - Regulation S-K Item 503(c) (risk factors)
  - Regulation S-K Item 303 (management discussion of operation/uncertainties)
  - Form 20-F (international; analogous to Regulation S-K on Form 10-K)

# *Financial Disclosures Attributed to Climate Change*

## *– Scope*

---

- **Scope**
  - **Purpose:** series of options for climate change disclosures accompanying audited and unaudited financial statements. Encourages consistent and comprehensive disclosure of financial impacts attributed to climate change.
  - **Objective:** to determine the conditions warranting disclosure and the content of appropriate disclosure.

# *Financial Disclosures Attributed to Climate Change*

## *–Uses*

- **Uses**
  - **Voluntary:** Degree of disclosure depends on scope/objective of the financial statements.
  - **Application:** U.S. and international operations at the discretion of the reporting entity.
  - **Other limitations:** contractual, court decisions, regulatory directives may affect the flexibility. International Accounting Standards Board & International Financial Reporting Standards apply for international disclosures.

# *Financial Disclosures Attributed to Climate Change*

## *–Principles*

- **Principles**
  - **Uncertainty:** Remains uncertainty with final resolution of factual, regulatory, legislative, judicial, or technological resolution. Use foreseeable alternatives, boundaries, or ranges to assess and quantify.
  - **Comparison:** Subsequent disclosures with different information should not be construed as indicating initial disclosure inappropriate.
  - **Not Exhaustive:** if cost of information or time to gather outweighs usefulness, may be a material detriment to orderly preparation of financial statements.

# *Financial Disclosures Attributed to Climate Change*

## *–Determining Whether a Disclosure is Warranted*

- **Example circumstances where disclosure of financial impacts attributed to climate change may be warranted:**
  - **Enforcement:** laws, regulations, investigations, controls, resource use, technology use, compliance, and other costs. Includes anticipated changes that have material effect on capital expenditures, earnings and competitive position; statutory law developments imposing liability for past emissions. Positive/Negative. Changes in assets.
    - Weather, sea level, disease, drought, fires, resources.
    - Risk or risk transfer agreements. Insurance, hold harmless agreements, indemnity agreements, property transfer liability.
    - Commencement of litigation or assertion of claim or assessment by a party alleging legal liability.
    - Known information indicating financial impact.

# *Financial Disclosures Attributed to Climate Change –Determining ..Disclosure is Warranted Continued..*

- Sources of Information
  - Publicly available environmental records
  - Internal reporting entity records
  - Studies on benchmarking, modeling, trends, forecasts
- Criteria - Financial Impact Attributed to Climate Change
  - Impact should be ‘more than remote’ likelihood
  - Could have severe impact, disrupting normal financial function
  - Be near-term, occurring during the next year.
- If all 3 criteria apply, estimate likelihood, magnitude, and timing of potential impacts to entity’s financial position, including assets, liabilities, and income.

# *Financial Disclosures Attributed to Climate Change*

## *–Estimation of Materiality*

- No current bright-line or simple formulaic test\*
  - FASB in Statement of Accounting Concepts No. 2 that an item is material if “the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.
  - U.S. Supreme Court ruled in 1976 that a disclosure is material if there is “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available” or if there is “a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote.”\*\*

\*SEC Guidance Document, #33-9106, <http://sec.gov/rules/interp.shtml>

\*\*FASB, Statement of Financial Accounting Concepts No.2, Qualitative Characteristics of Accounting Information, Original Pronouncements as Amended, 2008; *TSC Industries Inc. V. Northway, Inc.* 426 U.S. 438, 448 (1976).

# *Financial Disclosures Attributed to Climate Change*

## *–Content of the Disclosure Accompanying Financial*

- **Application** – content meant to supplement, not replace the disclosure requirements as prescribed or regulated through GAAP, SEC or other agency or body. Usually in notes and narrative text of financial statements and can be existing or anticipated impacts.
- **Disclosures To Be Made** – when an entity believes the impacts in the aggregate are material. May include damages, compliance costs, physical costs, income changes due to changes in markets for products/services, litigation, and management costs – initial and long-term costs (operations, maintenance, resource requirements).

# *Financial Disclosures Attributed to Climate Change*

## *–Content of the Disclosure Accompanying Financial*

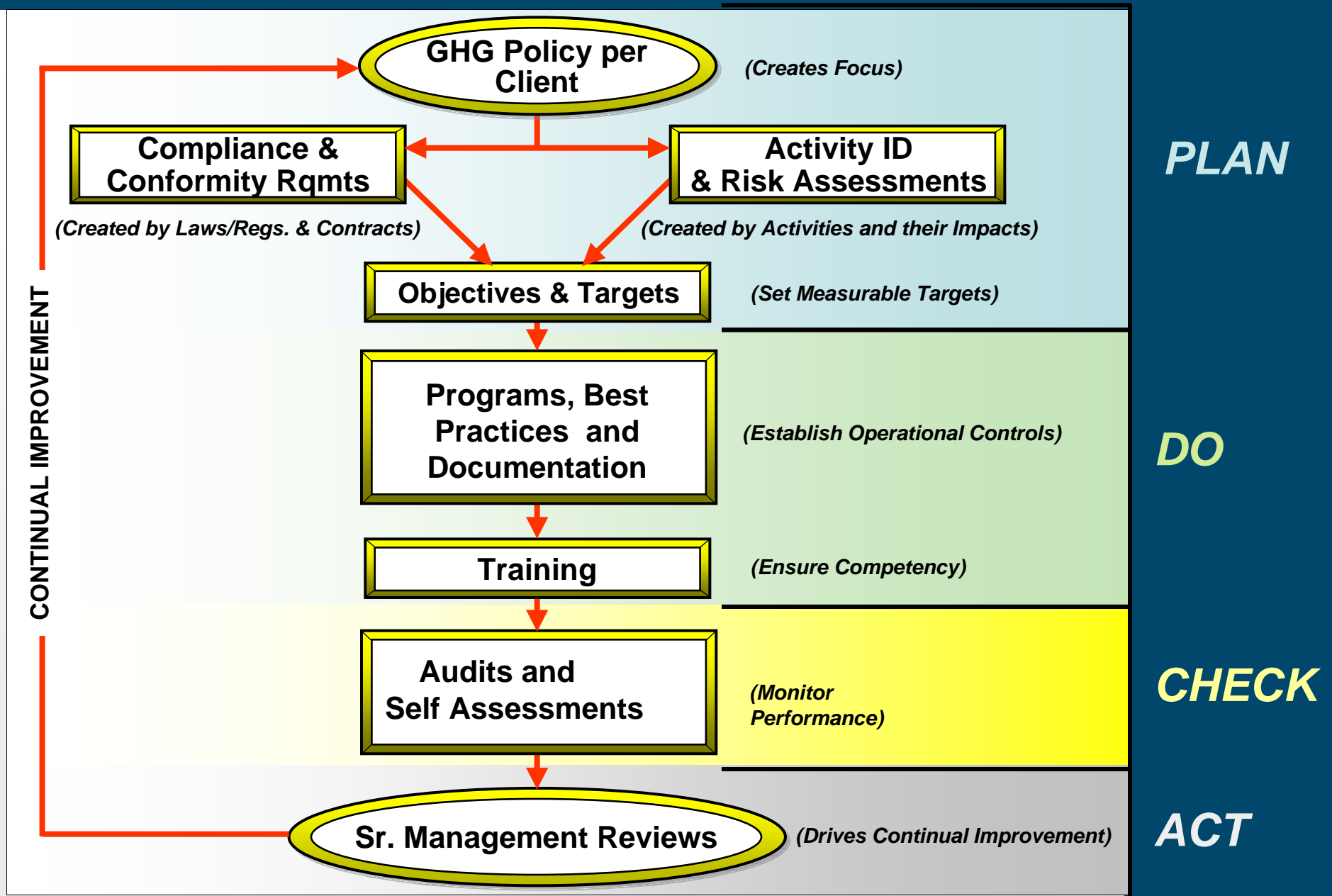
- **Disclosures**– material circumstances concerning management’s strategic analysis of the company’s financial impacts attributed to climate change:
  - Assessment of regulatory risks and opportunities (emission limits or reduction, tax, trading systems, resource limitations, allowances and/or credits)
  - Relevant regulatory requirements impacting reporting entity
  - Estimate likelihood, magnitude, timing of financial impacts, including a description of approach used to quantify impacts, discussion of approach for assessing materiality, and for liabilities, & amounts accrued.
  - State prior to reduction for amounts anticipated to be recovered from 3<sup>rd</sup> parties (insurance).
  - Disclose techniques for data measurement, uncertainties, assumptions, and financial impact estimates & materiality.

# *Financial Disclosures Attributed to Climate Change*

## *–Content of the Disclosure Continued ...*

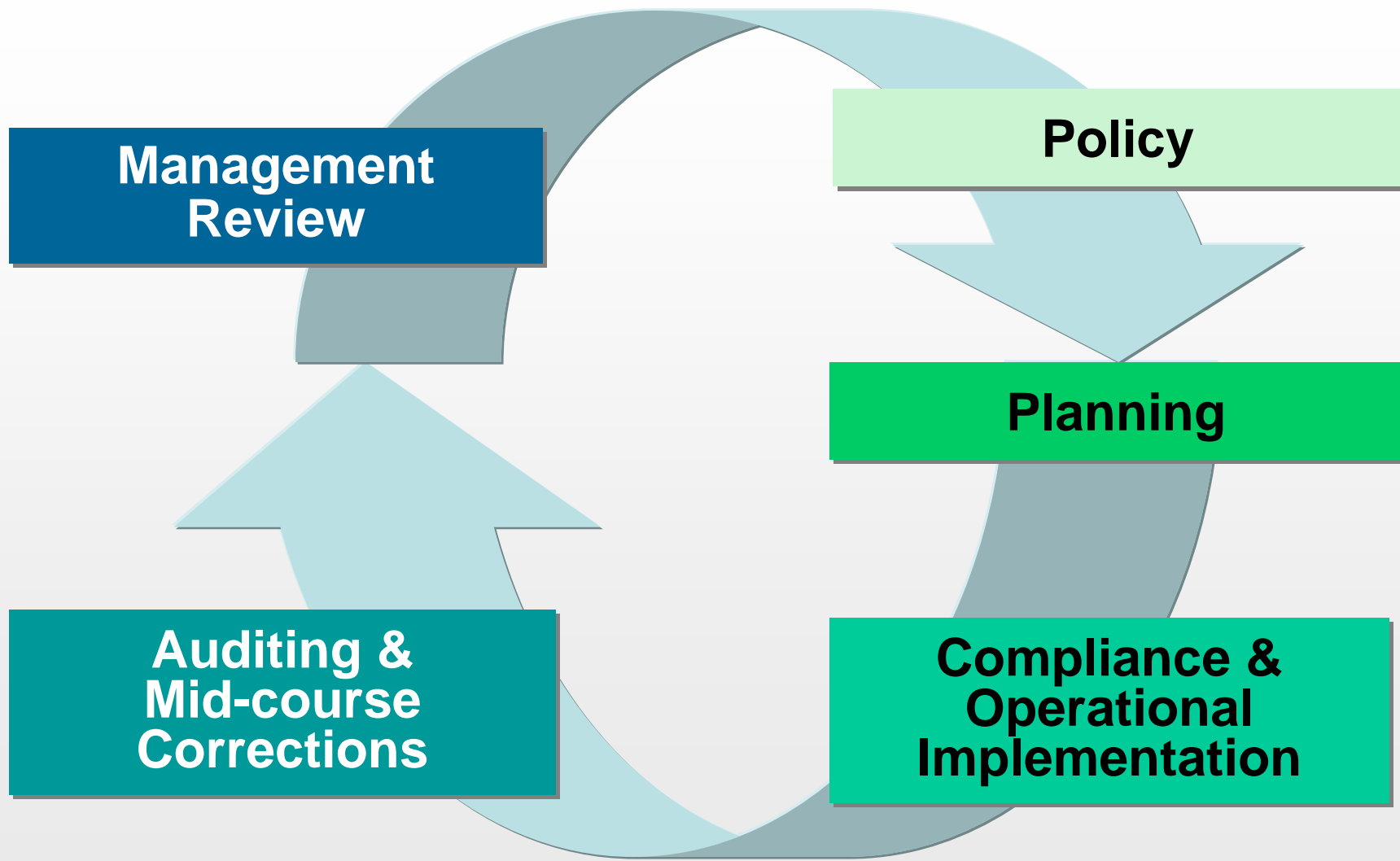
- If financial impacts cannot be quantified in part, provide written statement to describe the conditions or problems associated with estimation.
- List both positive and negative financial impacts.
- Consistent over time if possible. Trending and analysis. List changes to methodology when used.
- Keep consistent schedule of reporting.
- Make graphics, summary tables, trend analysis easy to understand. Define jargon.
- Use quality control. Check accuracy/reproducibility.
- Use separate estimate of anticipated insurance or other risk transfer liabilities and probability of recovery.

# Financial Reporting Goes Along with Every Step



# *Improve Financial Estimates and Transparency*

## **Continual Improvement**





AIR & WASTE MANAGEMENT  
ASSOCIATION

SINCE 1907

- One of the world's largest environmental conferences
- Technical sessions on full range of environmental and energy issues
- Exhibition is a dynamic showcase of environmental products, technology, and services
- Social programs and networking events
- 2010 ---- Calgary, Canada
- 2011 ---- Orlando, Florida
- 2012 ---- San Antonio





AIR & WASTE MANAGEMENT  
ASSOCIATION

SINCE 1907

# *A&WMA – Providing Opportunity for Your Success*

Thank you!



*For more information contact:*

***A. Gwen Eklund***

2010 President, international A&WMA

**Tel: 512-684-3106**

E-mail: [geklund@trcsolutions.com](mailto:geklund@trcsolutions.com)

