FEDERAL SUPPLIER CLIMATE RISKS AND RESILIENCE PROPOSED RULE: WHAT IT MEANS FOR GOVCONS

EXECUTIVE SUMMARY

In an effort to address greenhouse gas (GHG) emissions and, in turn, protect the federal government's supply chains from climate-related financial risks, the Office of the Federal Chief Sustainability Officer (CSO) issued the *Federal Supplier Climate Risks and Resilience* proposed rule on Nov. 10, 2022. This proposed rule would primarily affect major and significant federal contractors, and would require them to publicly disclose their GHG emissions, assess climate-related financial risks, and set science-based emissions reduction targets. Currently, the proposed rule is within the 60-day public comment period and the compliance requirements will start two years after publication of a final rule.

This proposed rule is derived from President Biden's Executive Order 14057, the Federal Sustainability Plan, which incorporates the following two key policies: The Executive Order on *Climate-Related Financial Risk*[1], and the Executive Order on *Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability.*[2]

GENESIS OF PROPOSED RULE – EXECUTIVE ORDERS

The Executive Order on *Climate-Related Financial Risk* is a policy designed to advance consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk and to mitigate climate-associated risk drivers, such as physical and transition risk. This policy also accounts for and addresses disparate impacts on disadvantaged communities and communities of color, which is consistent with Executive Order 13985 of Jan. 20, 2021, *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government.* Furthermore, this policy is intended to enhance the creation of well-paying jobs and to achieve a target of a net-zero emissions economy by no later than 2050.

The Executive Order, *Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability,* is a policy intended to catalyze private sector investment, and expand the economy and American industry by transforming how the federal government builds, buys, and manages electricity, vehicles, buildings, and other operations to be clean and sustainable. This policy declares that the federal government will achieve a carbon pollution-free electricity sector by 2035.

1 Biden, Joseph, R. "Executive Order on Climate-Related Financial Risk." *The White House,* https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/. Accessed 28 November 2022

2 Biden, Joseph, R. "Executive Order on Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability." *The White House,* https://www.whitehouse.gov/briefing-room/presidential-actions/2021/12/08/executive-order-on-catalyzing-clean-energy-industries-and-jobs-through-federal-sustainability/. Accessed 28 November 2022

PROPOSED RULE – RISK MITIGATION

In support of President Biden's Executive Orders on *Climate-Related Financial Risk* and *Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability,* the administration proposed the *Federal Supplier Climate Risks and Resilience* rule. This rule would require major federal contractors to publicly disclose their GHG and climate-related financial risks, as well as set science-based emissions reduction targets.

The federal government is the world's largest purchaser of goods and services – buying over $630 billion in the last fiscal year – and, as such, climate change poses a real and significant financial risk through potential disruption and interruption of supply chains.[3] Furthermore, over the past year, every sector including the federal government, and its critical contractors and subcontractors, have felt the impact of supply chain disruptions. According to the CSO, the new *Federal Supplier Climate Risks and Resilience* rule would strengthen the resilience of vulnerable federal supply chains, resulting in greater efficiencies and reduced climate risk.

PROPOSED RULE – WHO IS AFFECTED

This rule specifically pertains to federal contractors. As such, the proposed rule partitions such contractors into three segments corresponding to their annual federal obligations by value of contracts received:

1. Major federal contractors receiving more than $50 million in annual contracts would be required to publicly disclose Scope 1, Scope 2, and relevant categories of Scope 3 emissions, as well as disclose climate-related financial risks, and set science-based emissions reduction targets.
2. Significant federal contractors with more than $7.5 million in annual contracts, but less than $50 million, would be required to report Scope 1 and Scope 2 emissions.
3. Other federal contractors with less than $7.5 million in annual contracts would be exempt from the *Federal Supplier Climate Risks and Resilience* proposed rule.

The Office of the Federal Chief Sustainability Officer Council on Environmental Policy outlined the rule requirements as follows below (also see the *Federal Supplier Climate Risks and Resilience* proposed rule overview here)[4]:

3 "Federal Supplier Climate Risks and Resilience Proposed Rule." *Office of the Federal Chief Sustainability Officer Council on Environmental Policy,* https://www.sustainability.gov/federalsustainabilityplan/fed-supplier-rule.html. Accessed on 28 November 2022

4 "Federal Supplier Climate Risks and Resilience Proposed Rule." *Office of the Federal Chief Sustainability Officer Council on Environmental Policy,* https://www.sustainability.gov/federalsustainabilityplan/fed-supplier-rule.html. Accessed on 28 November 2022

Federal Contractor Segment	Annual Federal Obligations	Federal Supplier Climate Risks and Resilience Proposed Rule Requirements		
		Scope 1, Scope 2, and relevant categories of Scope 3 emissions in alignment with the GHG Protocol Corporate Standard	**Climate Risks assessed in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)**	**Emissions reduction target validated by the Science Based Targets Initiative (SBTi)**
Major Contractors	>$50M	Yes (through CDP[i])	Yes (through CDP[ii])	Yes (through (SBTi[iii])
Significant Contractors	>$7.5M - ≤$50M	Yes, (Scope 1 and Scope 2 only)	No	No
Other Contractors	<$7.5M	No	No	No

PROPOSED RULE – TIMELINE

The proposed *Federal Supplier Climate Risks and Resilience* rule has a 60-day public comment period that is scheduled to close on Jan. 13, 2023.[iv] Additional information can be found under the *Federal Acquisition Regulation*: Disclose of Greenhouse Gas Emissions and Climate-Related Financial Risk: 87 FR 68312; page 68312-68334.

Starting one year after publication of a final rule, a significant or major contractor must complete a GHG inventory, and the significant or major contractor must have disclosed the total annual Scope 1 and Scope 2 emissions from its most recent inventory in System for Award Management (SAM). This one-year period provides the time needed for significant or major contractors to become familiar with the GHG Protocol Corporate Accounting and Reporting Standard, to survey the GHG emissions, and for significant or major contractors to report in SAM the total metric tons of carbon dioxide equivalent (MT CO_2e) of Scope 1 and Scope 2 emissions.

The compliance requirements for major contractors will start two years after publication of a final rule. This delayed starting date provides a major contractor (or its immediate owner or highest-level owner) additional time to complete a GHG inventory that covers relevant Scope 3 emissions; conduct a climate risk assessment and identify risks; complete the CDP Climate Change Questionnaire; and commit to, develop, and obtain SBTi validation of a science-based target.

COHNREZNICK'S APPROACH TO HELPING CLIENTS MANAGE RISK AND DRIVE VALUE THROUGH GHG COMPLIANCE

CohnReznick has industry expertise in providing value-added solutions to federal contractors that are in line with federal requirements for cost accounting, cybersecurity, and environmental, social, and governance (ESG) reporting. Our team of ESG experts align closely with the federal government's initiative to properly analyze and mitigate climate risks to help unlock value and disclose risks in a transparent manner, enabling the federal government to conduct prudent fiscal management of all major federal suppliers and achieve its net-zero emissions goals.

GHG Inventory

Our ESG team has the capability to support organizations in deriving a right-sized strategy and practical approach, helping organizations create value while meeting the policy requirements. CohnReznick's deep knowledge of Scope 1, Scope 2, and Scope 3 emissions standards helps ensure that we will be able to assist your organization in properly scoping, collecting, quantifying, and, ultimately, reporting out an organization's annual GHG emissions into the SAM. Our team can also help identify opportunity areas for energy efficiency and emissions reductions that can generate cost savings. This will be done through our dedicated ESG team with minimal disruption to an organization's daily activities.

An overview of the GHG protocol scopes and emissions across the value chain can be found here.

Annual Climate Disclosure

Per the proposed rule, major contractors are required to complete an annual climate disclosure within its current or previous fiscal year that will need to be submitted to the CDP (originally known as the Carbon Disclosure Project). The annual climate disclosure is a set of disclosures by an entity that aligns with recommendations of the TCFD, according to the proposed rule.[5] Our ESG team will assist your organization to identify, assess, validate, and report your GHG inventory for not only Scope 1 and Scope 2 emissions, but also relevant Scope 3 emissions; emissions that are a consequence of the operations of the reporting entity but occur at sources outside of the four walls of the reporting other than those owned or controlled by the entity. Our team will help ensure that the methodology for calculating an organization's emissions follows the GHG protocol and that the disclosures are aligned with TCFD, while also helping put in place a repeatable and reliable process.

Science-Based Targets

Major contractors are also mandated under the proposed rule to develop science-based targets and have the targets validated by SBTi. CohnReznick's ESG experts align with the definition that a science-based target is a target for reducing GHG emissions that is in line with reductions that the latest climate science deems necessary to meet the goals of the Paris Agreement to limit global warming to well below 2 °C above pre-industrial levels and pursue efforts to limit warming to 1.5 °C. As such, our team can assist your organization in meeting these science-based targets and can support the validation process through SBTi with minimal impact to your operations.

Warming projections as well as emissions and expected warming based on pledges and current policies can be found here.

Exceptions

Our team maintains a clear understanding of the exceptions for a significant or major contractor and can help your organization define if these exceptions apply to you.

5 "Federal Register." https://www.federalregister.gov/documents/2022/11/14/2022-24569/federal-acquisition-regulation-disclosure-of-greenhouse-gas-emissions-and-climate-related-financial. Accessed on 28 November 2022

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i CDP (formerly the Carbon Disclosure Project) resource walks organizations through the annual CDP climate change disclosure process, through which companies publicly report their GHG inventory, TCFD-aligned climate risks, and science-based targets.

ii CDP (formerly the Carbon Disclosure Project) resource walks organizations through the annual CDP climate change disclosure process, through which companies publicly report their GHG inventory, TCFD-aligned climate risks, and science-based targets.

iii Science Based Targets Initiative (SBTi) resource provides organizations with an overview for how to set and submit for validation a science-based target to reduce their GHG emissions in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

iv Public release of the proposed *Federal Supplier Climate Risks and Resilience* rule was on November 10, 2022