

Non-Financial Data Reporting Requirements

HVAC/R Owners and Operators



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Refrigerant Reporting Requirements

Emissions reporting falls under into one or more of four (4) categories:

1. US Securities & Exchange Commission (SEC)

The SEC's rule proposal aims to harmonize emissions reporting, ensuring data is comparable and transparent for shareholders, investors and the public

2. California

A suite of bills centering around The Climate Corporate Data Accountability Act, would mandate disclosure of GHG emissions data.

3. CSRD & SFDR

Are both part of a wider set of regulations that promote sustainable finance and sustainable economic activities in the European Union.

4. Voluntary Disclosures

This type of ESG reporting is central to building trust – with investors, customers, employees, partners, and regulators efforts are usually focused around CDP or GRI.

SEC'S Latest Planned Climate Disclosure Rulemaking

In March 2022 – the SEC moved forward with rule-making to make certain climate information required for publicly traded companies (Expected release October 2023) .

All of these must be attested by a third party. This would require some publicly traded companies to begin reporting as early as 2024.

Scope 2 Emissions

Indirect emissions from the generation of purchased or acquired electricity, steam, heating, and cooling consumed by a company.



Scope 1 Emissions

Direct emissions from operations owned and controlled by a company.



Scope 3 Emissions

All **indirect emissions** not reported in Scope 2.





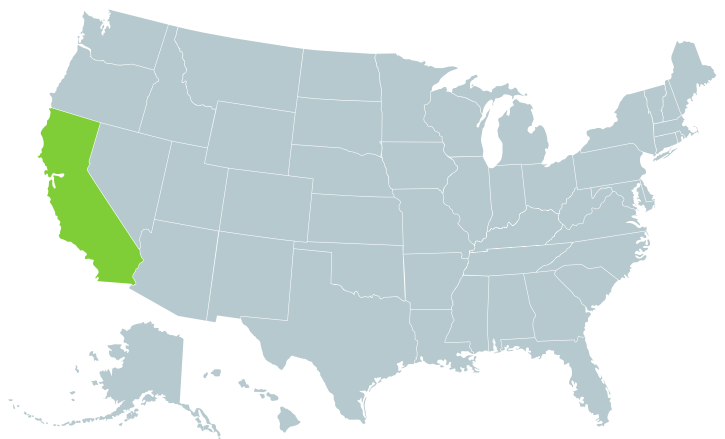
CALIFORNIA'S SB-253 and SB-261

(passed legislature September 2023)

These represent a suite of requirements for companies with \$1 billion or more in revenue and have active operations in California to report Scope 1, 2, and 3 emissions to the state of California (ARB). Assurance of the results will be required.

This would require some publicly traded companies to begin reporting as early as 2026.

It requires companies to disclose climate related financial risk and measures to reduce and adapt to the reported risk.



EU Taxonomy for Sustainable Activity

The EU Taxonomy for Sustainable Activities came out of the European Green New Deal, which looks to fight climate change through a series of policies.

Three Main Goals of EU Taxonomy



**No net emissions
of greenhouse
gases by 2050**



**Economic growth
decoupled from
resource use**



**No person and no
place left behind**

The taxonomy defines what a **“Sustainable Economic Activity”** is. For a business activity to be considered a sustainable economic activity, it must:

- **Contribute substantially to one or more of these environmental objectives**
 - Climate change mitigation
 - Climate change adaptation
 - The sustainable use and protection of water and marine resources
 - The transition to a circular economy
 - Pollution prevention and control
 - The protection and restoration of biodiversity and ecosystems.
- **Not significantly harm any of the above environmental objectives**
- **Be carried out in compliance with the minimum safeguards** that align with OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights
- **Comply with technical screening criteria by European Commission**



European Securities and Markets Authority

ESMA is the European stock market. Companies that are registered with ESMA are already required to report the following information:

Strategy Governance and Resilience

Individual companies must show how their governance standards work toward being resilient in the face of climate change.

Double Materiality

Companies must measure their impact on the climate in both carbon and financial health.

Topic Selection Process

Companies must know what topics related to environmental obligations need to be worked toward.

Targets and Goals

Companies have to have concrete goals related to sustainability.

ESG Reporting

All of this information that governments are now requiring fall under the umbrella of ESG (environmental, social, and governance) reporting.

More and more companies are putting these reports out as governments require information in them. ESG reports typically:

- | Are released as an **annual report**.

- | Explain **how a company is contributing to the environment** and its attempts at being more sustainable.

- | Explain governance and how they are tackling **environmental issues from a higher-level perspective**.

- | Created by the **executive suite**.

Trakref's research shows...

About half of companies have an ESG report while the other half do not.

About a quarter of them are using third-party review.

There is a blend of frameworks used.

ESG Frameworks Overview

	SBTI	ISSB SASB / TCFD	World Economic Forum	EU Taxonomy	SDGs
Primary Objective	Methodology and tools to set targets to meet the Paris Agreement objectives.	A comprehensive global baseline of sustainability- related disclosure standards provide investors and other capital market participants with information about companies' sustainability related risks and opportunities to help them make informed decisions.	Metrics and disclosures that can be used to align mainstream reporting on performance against ESG indicators and track contributions towards the SDGs	A classification system establishing a list of environmentally sustainable economic activities to evaluate investment portfolios.	A set of 17 interlinked high-level global goals designed to be a blueprint to achieve a better and more sustainable future for all.
Domain Focus & Scope	GHG	Sustainability	GHG	Environmental	Sustainability
Form	Excel tool enabling calculation of largest base on corporate data.	A further evolution of SASB metrics; created by merging the two organizations VRF (SASB, TCFD Integrated Reporting Principles) and CDSB.	Framework of metrics that coordinates other sources (GRI, SASB) into a standard reporting format.	Excel tool enabling calculation of alignment with the taxonomy; corporates will be required to disclose the proportions of turnover, capital expenditure and operating expenditure linked to at least one of the six environmental objectives.	17 broad subject areas companies choose to focus on, supported by training events and publications.
Number of Users	1,000	120,000	441	50,000	8,500

Regulatory Reporting Requirements

Changes to ESG Reporting in EU

	Non-Financial Reporting Directive	Corporate Sustainability Reporting Directive
Timeline	Effective 2018	Standards would be developed by a new European standard setter funder delegated authority from the Commission <ul style="list-style-type: none"> • October 2022 1st set of standards adopted by Commission • December 1, 2022 adoption of EU directive in member states legislation • 2023 1st period for companies to report
Scope of the Action	11,700	Approximately 49,000, which covers 75-80% of total EU Companies. 3,500 Companies in the US.
Who is Affected	Large Public Companies with 500 Employees <ul style="list-style-type: none"> • Listed Companies • Banks 	Large Companies that meet 2 of the 3 criteria <ul style="list-style-type: none"> • 250 Employees • €40M Revenue • €20M Total Assets <p>Listed companies are required to report. Small to medium companies have an additional 3 years</p>
What is Required	Reports must reflect relevance to performance, position and impact related to: Environmental, Social, Human Rights, Anti Corruption and Diversity	All NFRD related items and additional disclosures required: <ul style="list-style-type: none"> • Strategy Governance and Resilience • Double Materiality • Topic Selection Process • Targets and Goals • Intangibles such as Human and social capital • SFDR Reporting • Must accommodate EU Taxonomy requirements



Regulatory Reporting Requirements

Changes to ESG Reporting in EU

SFDR

All of your products are impacted – not only those with an ESG focus. All products will need to disclose the likely impacts of sustainability risks on the returns of the product (or explain why such risks are not considered relevant).

Timeline (March 2021) In Effect

January 1, 2022

EU Taxonomy

August 2022

Notification for sustainability-related provisions MiFID & IDD

January 1, 2023

EU Taxonomy and remaining 4 Environmental Objectives

- Articles 8 & 9 product disclosures June 30, impacts disclosed at product level

January 1, 2024

Disclosures of Taxonomy alignment

- Article 8&9 to all Environmental Objectives
- Taxonomy Alignment to financial undertakings for all environmental objectives

Scope of the Action

Publish information on the firms policies in integration of sustainability risks in the decision making process

Who is Affected

The SFDR applies to two categories of financial firms: Financial advisors that provide investment advice or insurance advice regarding insurance-based investment products (IBIPs). Financial market participants that manufacture and sell financial products and perform portfolio management services

Summary

The SFDR defines sustainable investment as an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices

Regulatory Reporting Requirements

Changes to ESG Reporting in EU

Taxonomy

The EU taxonomy or Green Listing is a classification system established to clarify which investments are environmentally sustainable, in the context of the European Green Deal. The aim of the taxonomy is to prevent green-washing and to help investors make greener choices.

Framework

1. Investors will ask Businesses how their activities align to the EU taxonomy
2. Using the TSC listed above, activities will be labeled as Taxonomy aligned or NOT.
3. The taxonomy establishes a Green list certification system
4. January 1, 2021 mandatory reporting began

Scope of the Action

Reporting under the EU Taxonomy Regulation is mandatory for financial and non-financial companies subject to publishing non-financial information under the Non-Financial Reporting Directive (the NFRD)

Who is Affected

- Large Public Companies with 500 Employees
- Anyone selling Financial products
 - EU Member states

Impacted Sectors include: agriculture, buildings, ICT, manufacturing, transport, utilities and finance

Summary

The technical screening criteria either relate to:

- the end product, e.g. in the case of lower emissions HVAC/R systems
- the production process, e.g. in the case of manufacturing of chemicals, metals and cement, and power and heat/cool generation

(Transition finance report of March 2021, Platform on Sustainable Finance, p. 26)

- | | |
|---|---|
| 1. Climate Change Mitigation | 4. Transition to a circular Economy |
| 2. Climate Change Adaptation | 5. Pollution prevention & control |
| 3. Sustainable use and protection of Water & marine resources | 6. Protection/Restoration of biodiversity and ecosystem |

Regulatory Reporting Requirements

Changes to California Regulations

The **two bills (253 & 261)** mandate the public disclosure of greenhouse gas emissions (GHG) and climate-related financial risk by companies doing business in California that meet different revenue thresholds- results are expected to change slightly before signature

What's Expected

SB 253 is the **Climate Corporate Data Accountability Act** Businesses will need to disclose Scope 1& 2 emission records and then phase in the requirement to report Scope 3 emissions. All will require assurance

SB 261 is the **Climate-related Financial Risk Act**

Disclose climate-related financial risk and measures adopted/planned to reduce and adapt to climate-related financial risk

Timeline

- | | |
|---|---|
| <ul style="list-style-type: none"> • 2026 - Scope 1 & 2 Emissions reporting • 2027 - Scope 3 Emission reporting • Annual Reporting | <ul style="list-style-type: none"> • 2026 - Data capture • 2027 - Reporting • Every other year (Bi-Annual) |
|---|---|

Qualification Screening

SB 253 (Health & Safety Code 38532)

- \$1 Billion in Revenue - this is gross global revenue
- Any active operation in the state
- Pay an annual fee / Climate Accountability Disclosure Fund

SB 261 (Health & Safety Code 38533)

- \$500 Million in Revenue - this is gross global revenue.
- Any Active operation in the state
- Pay an annual Fee/Climate-related Financial Risk Disclosure Fund

Impact & Considerations

SB 253 will impact more than 5,300 companies and complements the IFRS disclosure standards and the EU CSRD and is larger in scale than the expected SEC disclosure requirements. The state will require submitters to use their ARB portal for reporting. **HVAC/R owners will have to report all their refrigerant emissions from systems of ANY size.**

SB 261 will impact more than 10,000 Companies - expected to provide climate impacts by applying four pillars: governance, risk assessment, strategy development, and progress metrics. It emphasizes assessing physical and transition risks, the latter being crucial in the shift to a low-carbon economy, influenced by multiple factors including regulations and financial sector demands

The FTC Green Guides

Green washing is the process of conveying a false impression or misleading information about how a company's products are environmentally sound.

Green washing involves making an unsubstantiated claim to deceive consumers into believing that a company's products are environmentally friendly or have a greater positive environmental impact than they actually do.

Green washing can convey a false impression that a company or its products are environmentally conscious or friendly

- No broad, unqualified general environmental benefit claims like 'green' or 'eco-friendly.' Broad claims are difficult to substantiate, if not impossible.
- Should qualify general claims with specific environmental benefits.
- Qualifications for any claim should be clear, prominent, and specific.
- When a marketer qualifies a general claim with a specific benefit, consumers understand the benefit to be significant. As a result, marketers shouldn't highlight small or unimportant benefits.

Specific FTC Requirements regarding Offsets (or Insets)

- Marketers should disclose whether the offset purchase pays for emission reductions that won't occur for at least two years.
- Marketers should not advertise a carbon offset if the law already requires the activity that is the basis of the offset.
- Marketers should have competent and reliable scientific evidence to support carbon offset claims. They should use appropriate accounting methods to ensure they measure emission reductions properly and don't sell them more than once.

Claims related to refrigerant

Unqualified claims about renewable material may imply that a product is recyclable, made with recycled content, or biodegradable. One way to minimize that risk is to identify the material used clearly and prominently, and explain why it is renewable.

Marketers should qualify renewable materials claims unless an item is made entirely with renewable materials, except for minor and incidental components.

1. Reclaim

Assert that used refrigerant is completely made from recovered material post market use and has the needed proof in documentation

2. Materiality & Double Materiality

Reporting the impact that new regulations Materiality & Double will have on your operation is important. Also consider the impact from installing and reporting obsolete equipment

3. Disclosure Accuracies

Be careful to report the scale and scope of your HVAC/r Refrigerant impact. Note that EPA regulations only cover about 5% of total site installed capacity

Trakref is here to help.

Trakref is a rules engine that allows companies to properly track their emissions.

- ✓ We help break down the siloes – facilities professionals and technicians enter data which can then be accessed by the C-suite for the reporting.
- ✓ Our rules engine is always updated with the latest regulations.
- ✓ Full Scope 1 reporting module included.
- ✓ Carbon balance sheets module included. with associated carbon equivalent factors built in

As new changes come down the pipeline, we'll be optimizing our software to make sure that all clients are able to properly report.

Get Started with Trakref: A Fexa Solution

Trakref's powerful **refrigerant management and compliance solution** helps you stay compliant with ever-changing regulations while reducing leaks and costs. See how we simplify your refrigerant management by scheduling a live, personalized demo at:

<https://info.fexa.io/lp/tr-request-a-demo>