



# Preparing your company disclosures for the proposed federal supplier climate rule

## Introduction: How the proposed climate risks rule impacts federal suppliers

In November 2022, the Biden administration proposed the Federal Supplier Climate Risks and Resilience Rule (FAR Case 2021-015). If passed, the rule would require certain federal contractors to publicly disclose emissions data and climate-related risks, as well as set future greenhouse gas (GHG) emissions reduction targets.<sup>1</sup> This follows a larger trend of increasing transparency requirements from regulators, notably the proposed Securities and Exchange Commission (SEC) Climate rule, the Corporate Sustainability Reporting Directive (CSRD), and other global regulations.

In this new global regulatory environment, forward-thinking companies have a competitive edge: high-quality disclosures can lead to market benefits such as lowered risk premiums

and cost of capital, improved valuations, and increased investor confidence,<sup>2</sup> as well as support long-term business resiliency.

Contractors that do not take decisive steps to comply may become ineligible for certain federal awards depending on the final terms of the rule at approval. Less responsive companies are also more likely to see reduced investor confidence in their disclosures and, crucially, could lose resiliency and strategic direction in response to future climate-related challenges.

In this paper, we outline three key actions contractors can take to not only comply with the proposed rule, but also create business wins when improving disclosures on company climate risk and decarbonization.

## The proposed U.S. FAR rule: Upping the ante on climate disclosures

**Major federal contractors (those with \$50 million or more in annual contracts) and Significant federal contractors (those with \$7.5 million to \$50 million in annual contracts) both must:**

- 1 Disclose Scope 1 emissions, which are emissions from owned or controlled operations.
- 2 Disclose Scope 2 emissions, which are emissions from purchased or acquired electricity, steam, heat and cooling from third-party utilities.

**Major federal contractors must also:**

- 3 Disclose Scope 3 emissions, which are indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.
- 4 Disclose a climate risk assessment, leveraging standards such as the Task Force on Climate-Related Financial Disclosures (TCFD) or the CDP Climate Change Questionnaire, indicating identified risks, internal processes, and their impact on the organization.
- 5 Set emissions reduction targets through the Science Based Targets Initiative (SBTi) that align with the latest climate science estimates on the reductions necessary to meet the goals of the Paris Agreement.

<sup>1</sup> "FACT SHEET: Biden-Harris administration proposes plan to protect federal supply chain from climate-related risks," The U.S. White House, November 10, 2022.

<sup>2</sup> Ashish Lodh, "ESG and the cost of capital," MSCI, 2020.

# Compliance action 1: Measure your current GHG emissions

**Goal:** Understand and map your current GHG emissions footprint—high-quality disclosures need to start with a clear picture of your company’s current state.

**Win for your business:** A disclosure-ready GHG inventory management system, as well as the basis for an emissions reduction strategy and target-setting.

## How to do it:

01

**Assess your scope and boundaries for a GHG inventory.** Collect details on your operational footprint and control of assets to determine the organizational boundaries of your business for emissions reporting.

### Keep in mind:

- Financial, operational, or mixed accounting methods may apply to allocate emissions between owned operations (Scope 1 and 2) and the value chain (Scope 3).
- For Scope 3 emissions, an emissions hotspot analysis will identify the most material categories and suppliers.

02

**Develop a standard approach to collecting and analyzing Scope 1, 2, and 3 GHG emissions data.** Identify the data types and sources required for Scope 1, 2, and 3 calculations, process owners, and collection processes.

### Keep in mind:

- Where possible, centralize GHG emissions data for efficiency, using software to ease data transfer and standardization.
- Institute robust governance and controls to operationalize the management of your GHG emissions data.

03

**Calculate Scope 1, 2, and 3 GHG emissions.** Apply the boundary methodology to calculate Scope 1, 2, and 3 emissions with material categories in compliance with the GHG protocol.

### Keep in mind:

- Decide on a calculation methodology that improves with your data quality and accessibility. Scope 3 methodology should strike the right balance between higher precision and the quality needed for actionable insights.
- Agree upon proxies and estimates to calculate values for missing/incomplete data.

04

### Continuously improve.

Build the knowledge base, capacity, and culture needed for expanded emissions scope and accuracy.


### Keep in mind:


- Improvement is guided best by a GHG inventory management plan and roadmap to ensure consistency and transparency.
- Increase Scope 3 data and calculations quality across all categories (including financed emissions).

**The upshot:** Good emissions mapping is the foundation of a high-quality disclosure, for FAR and beyond. Put yours in place and build a sound emissions reduction strategy from it.

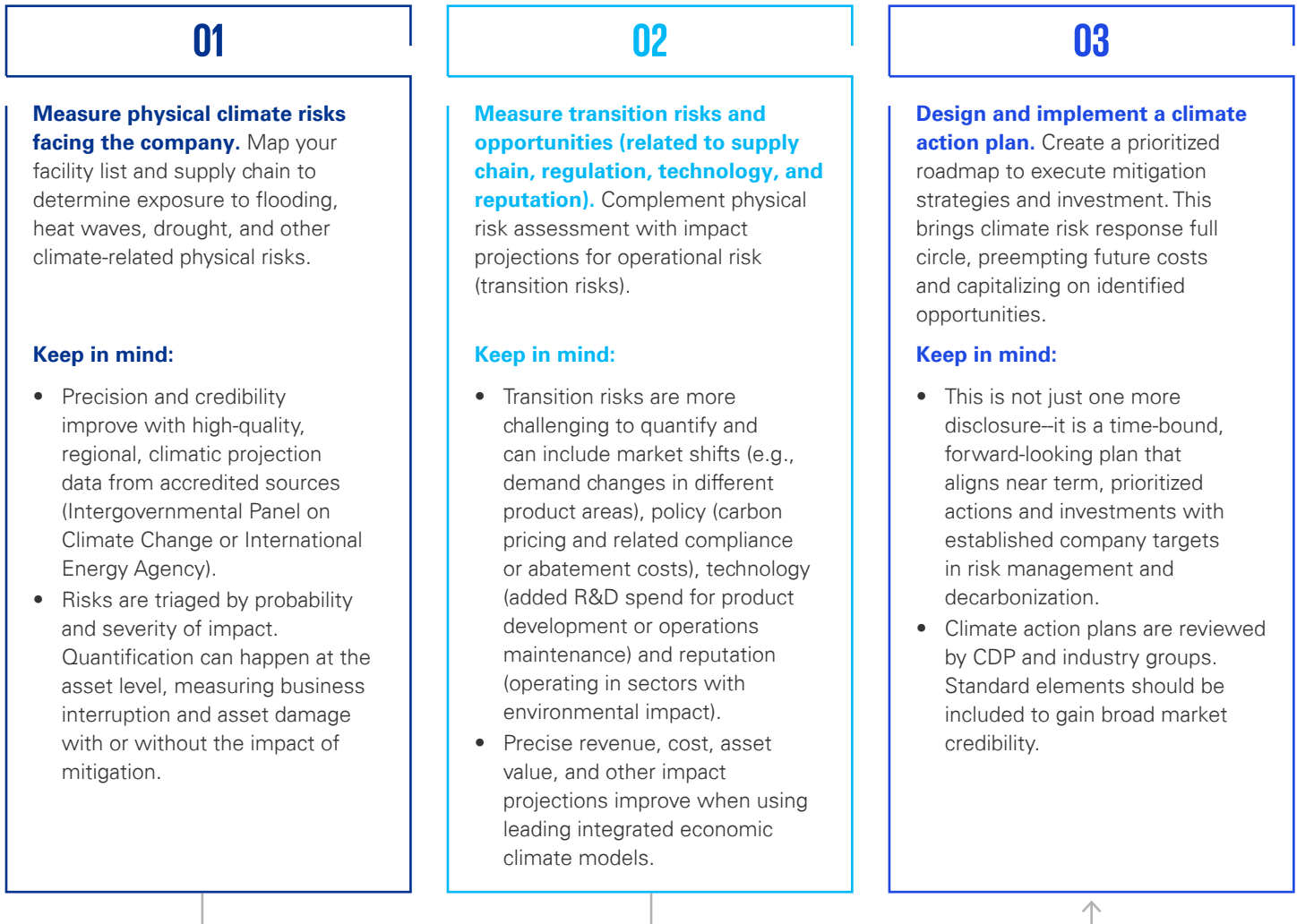



## Compliance action 2: Identify and quantify your climate risk

 **Goal:** Perform an enterprise-level risk assessment in support of your CDP response and TCFD disclosures (this is especially important for Major contractors).

 **Win for your business:** A prioritized, quantified climate risk profile to improve your company enterprise risk management (ERM) across your direct operations and supply chain. This guides mitigation and capital investment.


### How to do it:




 **The upshot:** Climate risk disclosure is the basis for improved risk planning across the organization. Improve not only existing ERM but also overall resiliency and strategic investment with a foundation of high-quality disclosures for FAR and beyond.



## Compliance action 3: Set emissions reduction target(s) through SBTi

 **Goal:** Comply with Major contractor recommendations to set science-based emissions reduction targets.

 **Win for your business:** Gain credibility by aligning with the SBTi, a global organization focused on target setting and verification. Demonstrate a serious, actionable commitment to decarbonization and reducing long-term regulatory risk on carbon pricing as well as emissions.

### How to do it:

#### 01

**Define your target.** Leverage your GHG inventory and the tools and guidance available from SBTi to determine relevant, ambitious, achievable target(s) that would apply to your company (required for Major federal contractors, optional for all others).

#### Keep in mind:


- Choose the type of target that aligns best with your company's strategy. Absolute reduction targets (measured in total MTCO<sub>2e</sub>, against an emissions baseline) or intensity-based targets (emissions relative to an economic variable, such as per unit of production) that align to a 1.5°C warming trajectory are options.
- Consider short- (5-10 years) and long-term targets (>10 years, up to 2050) that correspond with SBTi requirements. Scope 1, 2, and 3 targets are different. Scope 1 and 2 short-term targets must align with the level of decarbonization required to limit the global temperature to 1.5°C, while Scope 3 short-term targets must align with the ambition to limit the global temperature to well below 2°C.

#### 02

**Validate with SBTi and implement your target.** Follow the approval procedure and publish a validated target.

#### Keep in mind:

- You need to register your commitment online with SBTi, which triggers a 24-month timeframe for companies to refine and submit formal targets.
- Prepare and send official SBTi target submission for approval.
- Following approval, publish the target through platforms such as TCFD, CDP, and your company website, and implement actions towards GHG reduction target milestones.

 **The upshot:** Your targets and emissions reduction strategy will build trust with regulators, investors, customers, financial institutions, rating agencies, and climate action bodies.

## Definitions

**1 Absolute contraction method:** This SBT sector-agnostic method involves conforming to a uniform reduction in accordance with limiting global warming to 1.5°C or well below a 2°C increase compared to pre-industrial temperatures.

**2 Absolute reduction target:** This target aims to reduce GHG emissions by a set amount. For example, Company A has set a target to reduce their emissions by 20 percent by 2025. An absolute reduction target is referring to the total amount of emissions being emitted.

**3 Intensity target:** This target is a normalized metric that sets a company's emissions goals relative to some sort of economic output. That output can be anything from the number of employees to total revenue. This allows a business to set emissions reduction targets while accounting for economic growth or contraction.

## Conclusion

The proposed FAR rule is currently the latest regulatory push toward improved company climate disclosures. Greater transparency, decarbonization ambition, and risk quantification are the new norm. As the signals keep getting stronger, companies should invest to improve their disclosures now.

In this new era, preemptive action to comply with FAR is also a way to improve overall business practice. These three actions will help companies build critical capacity in long-term climate risk mitigation and GHG management, as well as increased credibility through Scope 3 disclosures and alignment with SBTi.

## How KPMG delivers improved climate risk and emissions disclosures

Our teams at KPMG work with companies across industries to measure and manage their GHG emissions and climate risks and to create and implement effective decarbonization strategies. With access to industry-leading experience, data-driven technology, and global alliances, KPMG can help turn compliance with the FAR rule into an opportunity for broader business wins through improved disclosures on climate risks and decarbonization. We can work with clients to enhance trust, mitigate risk, and help unlock new value as they build a resilient business for a sustainable future.





## Authors



**Katherine Blue**

*Principal, ESG & Climate Advisory*

Katherine is the US Environmental, Social, and Governance (ESG) services leader for Audit, Tax, and Advisory, and has over 20 years of experience in corporate ESG strategy, climate change, decarbonization, and EH&S regulatory compliance. She has substantial experience with GRI, WBCSD, SASB, TCFD, and other important protocols for ESG governance, and leads ESG strategy, materiality, and climate/decarbonization advisory engagements across US business sectors. By coordinating the firm's services across audit, tax, advisory, and the Board Leadership Center, she ensures KPMG offers a full suite of ESG services to clients.



**David Ross**

*Director, ESG & Climate Advisory*

David has over 10 years of global infrastructure development and climate strategy experience and leads the ESG & Climate Advisory team's efforts on decarbonization, renewable energy, and electrification. David has considerable experience in developing and analyzing the business case for multi-million and multi-billion-dollar investments, in addition to innovative project financing operations and delivery mechanisms. He has worked across industries to support corporations, governments, and non-profits by assessing and mitigating their climate challenges in a cost effective and value-driven manner.



**Helen Rauschen-Oxenbridge**

*Director, ESG & Climate Advisory*

Helen is a Director with the ESG & Climate Advisory practice. She leverages her global decarbonization and sector experience to help clients develop and advance their decarbonization journeys. In particular, she focuses on Scope 3 emissions reduction strategies, identifying the most effective solutions to mobilize suppliers and value chain partners to achieve their goals.



**Jason Ballentine**

*Director, ESG & Climate Advisory*

Jason is an ESG & Climate Advisory practice leader, focusing on climate risk, resilience, and ESG integration with capital programs. He has led projects around the globe to implement physical asset management and reliability improvement solutions to the world's largest asset intensive companies across a wide range of industries, including power and utilities, oil, gas and chemicals, mining and metals, pharmaceuticals, and food packaging.

---

## We would like to thank our contributors:

Daniel Talero, Kathryn Ani-Otoibhi

# Contact us

## Katherine Blue

Principal, ESG & Climate Advisory

404-312-4511

[kblue@kpmg.com](mailto:kblue@kpmg.com)

## David Ross

Director, ESG & Climate Advisory

602-799-3232

[dtross@kpmg.com](mailto:dtross@kpmg.com)

## Helen Rauschen-Oxenbridge

Director, ESG & Climate Advisory

408-367-6080

[hrauschenoxenbridge@kpmg.com](mailto:hrauschenoxenbridge@kpmg.com)

## Jason Ballentine

Director, ESG & Climate Advisory

512-659-8185

[jballentine@kpmg.com](mailto:jballentine@kpmg.com)

## Related thought leadership:



### How to determine where ESG can create value

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

DASD-2023-12905