FAR Case 2021-015:
Regulatory Impact Analysis

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1. Background

Risks of climate change are not unique to the Federal Government, but as the world’s largest procurement organization, the Federal procurement system plays important direct and leadership roles in managing global climate-related financial risks. The Inter-Governmental Panel on Climate Change has estimated $69 trillion in global financial losses by 2100 from a 2°C warming scenario if these risks are not properly managed.

On December 12, 2015, the United States joined more than 190 countries to adopt the Paris Agreement to combat climate change, which established a long term, durable framework to reduce global greenhouse gas (GHG) emissions. Participating countries committed to putting forward successive and ambitious, nationally determined emission-reduction targets, with the goals of preventing the global average temperature from rising 2°C (3.6°F) above preindustrial levels and pursuing efforts to keep it below 1.5°C (2.7°F). At the time, the White House announced commitments by 154 companies that signed on to the American Business Act Pledge to an ongoing commitment to climate action, including setting company-specific goals for reducing emissions by 50 percent.

On May 20, 2021, President Biden signed Executive Order (E.O.) 14030, Climate-Related Financial Risk, which laid out the Administration’s priority to advance consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk, including both physical and transition risks; act to mitigate that risk and its drivers; and achieve the target of a net-zero emission U.S. economy by no later than 2050. To that end, section 5(b)(i) of the E.O. directs the Federal Acquisition Regulation Council (FAR Council), in consultation with the Chair of the Council on Environmental Quality (CEQ) and the heads of other agencies as appropriate, to consider amending the Federal Acquisition Regulation (FAR) to require major Federal suppliers to publicly disclose their GHG emissions and climate-related financial risk and to set science-based reduction targets.

On December 8, 2021, the Office of Management and Budget (OMB) issued memorandum M-22-06 pursuant to section 510(a) of E.O. 14057, Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability. Section II.1. of the OMB memo states that the FAR Council should leverage existing third-party standards and systems, including the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations, the CDP (formerly Carbon Disclosure Project) reporting system, and Science Based Targets Initiative (SBTi) criteria, or equivalents, in the development of regulatory amendments to promote contractor attention on reduced carbon emissions and Federal sustainability.

Furthermore, addressing the risks of climate change advances the Biden Administration’s environmental justice and equity goals. As set forth in E.O. 14030, climate risks must be mitigated “while accounting for and addressing disparate impacts on disadvantaged communities and communities of color (consistent with Executive Order 13985 of January 20, 2021
(Advancing Racial Equity and Support for Underserved Communities Through the Federal Government)”. E.O. 14057 also states that “it is critical that the Federal Government incorporate environmental justice considerations into sustainability and climate adaptation planning, programs, and operations.”

2. Proposed Rule Framework

To implement section 5(b)(i) of E.O. 14030, this rule proposes to create a new standard of responsibility for prospective contractors who are significant and major contractors. For the purposes of this rule, a “significant contractor” is defined as an offeror who received $7.5 million or more, but not exceeding $50 million, in Federal contract obligations (as defined in OMB Circular A-11) in the prior Federal fiscal year (per the System for Award Management (SAM)). A “major contractor” is defined as an offeror who received more than $50 million in Federal contract obligations in the prior Federal fiscal year.

This distinction between major contractors and significant contractors is important to ensure this rule collectively applies the requirements to entities receiving the most annual Federal contract obligations, to obtain the most responsibility for the management of GHG emissions and climate risks impacting the Federal Government's supply chains. The major contractor requirements would address 64 percent of Federal Government spend and approximately 69 percent of supply chain GHG impacts, of which 31 percent of major contractors already report disclosing their GHG emissions through SAM. Significant contractors receive fewer contract obligations, with only 10 percent disclosing their GHG emissions through SAM. Therefore, the reporting burden is significantly lessened for these companies by only reporting Scope 1 and 2 emissions. Collectively, this rule will cover 86 percent of annual spend and about 86 percent of supply chain GHG impacts. It will also provide a better understanding of the Federal supply chain impacts, including Scope 3 emissions reported by major contractors.

As a result of this rule, a prospective contractor that is a significant or major contractor will be presumed to be nonresponsible unless it has complied with the new policy outlined at FAR subpart 23.XX (see section 5.1 of this analysis for a more detailed discussion of the general compliance requirements). Specifically, in order to be considered responsible, the prospective contractor shall have accomplished the following:

- **Significant and major contractors.** Starting one year after publication of a final rule, the prospective contractor has completed (itself or through its immediate or highest-level owner) within its current or previous fiscal year a GHG inventory of its annual Scope 1 and Scope 2 GHG emissions, and reported the total annual Scope 1 and Scope 2 emissions from its most recent inventory in SAM; and

- **Major contractors only.** Starting two years after publication of a final rule, the prospective contractor has submitted (itself or through its immediate or highest-level
owner) an annual climate disclosure within its current or previous fiscal year by completing those portions of the CDP Climate Change Questionnaire that align with the TCFD recommendations as identified by CDP (https://www.cdp.net/en/guidance/how-cdp-is-aligned-to-the-tcfd), developed a science-based target, and had the target validated by SBTi within the previous five calendar years.

The proposed rule provides for some exceptions to these compliance requirements (see FAR 23.XX04). Specifically, a significant or major contractor is not required to inventory its Scope 1 or Scope 2 emissions and a major contractor is not required to complete an annual climate disclosure or set science-based targets if it is—

- An Alaska Native Corporation, a Community Development Corporation, an Indian tribe, a Native Hawaiian Organization, and a Tribally owned concern, as those terms are defined at 13 CFR 124.3;
- A higher education institution (defined as institutions of higher education in the OMB Uniform Guidance at 2 CFR part 200, subpart A, and 20 U.S.C. 1001);
- A nonprofit research entity;
- A state or local government; or
- An entity deriving 80 percent or more of its annual revenue from Federal management and operating (M&O) contracts that are subject to agency annual site sustainability reporting requirements.

In addition, if a major contractor is considered a small business for the North American Industry Classification System (NAICS) code it has identified in its SAM registration as its primary NAICS code, or if it is a nonprofit organization, then it is not required to complete an annual climate disclosure or to set science-based targets. However, the major contractor is still required to complete a GHG inventory of its Scope 1 and Scope 2 emissions and must report these total annual emissions in SAM.

This rule allows an offeror to represent that it is in compliance if it has (itself or through its immediate or highest-level owner) completed the GHG inventory, made the annual climate disclosure, and set a science-based target. For example, if an offeror’s immediate owner or highest-level owner completes an inventory of the GHG emissions that are attributable to itself or its subsidiaries and affiliates, then the offeror may represent as being in compliance with the policy in FAR 23.XX03.

When making a responsibility determination, a contracting officer will rely on the representations of a prospective contractor in the revised solicitation provision at FAR 52.223-22 (or the equivalent representations in the commercial provision at FAR 52.212-3(t)) regarding whether the prospective contractor is a significant or major contractor and, if so, whether it is in compliance with the new GHG inventory, annual climate disclosure, and science-based target requirements, as applicable. Unless a waiver or an exemption applies, if a prospective
contractor’s representation indicates that it is a significant or major contractor, that it is not subject to an exception, and that it is not in compliance, then the contracting officer will request additional information from the prospective contractor regarding what efforts the prospective contractor has made to comply before making a responsibility determination.

3. Current Corporate Disclosure Requirements

3.1 GHG Reporting Program

On January 1, 2010, the Environmental Protection Agency (EPA) began requiring large emitters of GHG to collect and report data with respect to their GHG emissions. The Greenhouse Gas Reporting Program (GHGRP), codified at 40 CFR Part 98, requires reporting of GHG data and other relevant information from large GHG emission sources, fuel and industrial gas suppliers, and carbon dioxide equivalent (CO2e) injection sites in the United States. A total of 41 categories of reporters are covered by the GHGRP. Facilities determine whether they are required to report based on the types of industrial operations located at the facility, their emission levels, or other factors. Facilities are generally required to submit annual reports under Part 98 if:

- GHG emissions from covered sources exceed 25,000 metric tons CO2e per year.
- Supply of certain products would result in over 25,000 metric tons CO2e of GHG emissions if those products were released, combusted, or oxidized.
- The facility receives 25,000 metric tons or more of CO2e for underground injection.

Approximately 7,600 facilities are required to report their emissions annually. Total reported emissions from these facilities are approximately 3 billion metric tons CO2e, which is about 50 percent of total U.S. GHG emissions. This data is used to track and compare covered facility GHG emissions and identify opportunities to cut pollution, minimize wasted energy, and save money.

Facilities in most source categories subject to Part 98 began reporting for the 2010 reporting year while additional types of industrial operations began reporting for reporting year 2011. As of October 2021, GHGRP data are publicly available for 2010 through 2020. Facilities calculate their emissions using methodologies that are specified at 40 CFR Part 98 and report their data to EPA using the electronic Greenhouse Gas Reporting Tool (e-GGRT). Annual reports covering emissions from the prior calendar year are due by March 31st of each year. Once data are

submitted, EPA conducts a multi-step verification process to ensure reported data are accurate, complete, and consistent.²

3.2 SEC Registrants

The Securities and Exchange Commission (SEC or Commission) has addressed the disclosure of material environmental issues since the early 1970s, and the Commission has periodically evaluated the need for specific rules or additional guidance related to financial risks that SEC registrants, including publicly listed/traded companies, may face as a result of environmental issues, including climate effects. In 2010, the Commission issued an interpretive release that provided guidance to issuers as to how existing disclosure requirements apply to climate-related information (the “2010 Guidance”). The 2010 Guidance noted that, depending on the circumstances, information about climate-related risks and opportunities might be required in a registrant’s disclosures related to its description of business, legal proceedings, risk factors, and management’s discussion and analysis of financial condition and results of operations. The release outlined certain ways in which climate-related issues may trigger disclosure obligations under the SEC’s rules. It also noted legislation and regulations governing climate change, international accords, changes in market demand for goods or services, and physical risks associated with climate change.

Due to increased demand for climate-related information by investors and other market participants, as well as to protect investors and ensure efficient operations of markets, on March 21, 2022, the SEC published on its website at https://www.sec.gov/rules/proposed.shtml a proposed rule to facilitate the disclosure of consistent, comparable, and reliable climate-related information for investors. The proposed rule, entitled “The Enhancement and Standardization of Climate-Related Disclosures for Investors,” was subsequently published in the Federal Register on April 11, 2022 (see 87 FR 21334). The proposal was subject to notice and comment, and the comment period has closed.³ If adopted as proposed, the rule would require SEC registrants, including publicly listed/traded companies, to disclose climate-related financial risks and related metrics, including GHG emissions, in registration statements and annual reports. The proposal is intended to address concerns that current disclosure practices are not providing investors with decision-useful information about climate-related risks. Parts of the SEC proposed rule leverage existing standards, such as the GHG Protocol (GHG Protocol) Corporate Accounting and Reporting Standard and the recommendations of the TCFD.

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3.3 Federal Contractors

Vendors interested in doing business with the Federal Government are required to register in SAM, the primary Government repository for prospective Federal awardee information. When a vendor registers in SAM it is required to complete various annual representations and certifications regarding itself and the products and services it may offer to the Federal Government. These required annual representations and certifications are implemented via solicitation provisions, which are prescribed in the FAR for use in Federal procurements. This information gathered via these annual representations are used by contracting officers to assess whether the vendor meets the Government’s minimum standards or requirements for a specific procurement. One such annual representation is included in the solicitation provision at FAR 52.223-22, Public Disclosure of Greenhouse Gas Emissions and Reduction Goals-Representation.

The solicitation provision at FAR 52.223-22 took effect in December 2016 (see final rule published at 81 FR 83092 on November 18, 2016) and requires offerors that received $7.5 million or more in Federal contract awards in the prior Federal fiscal year to represent annually whether the offeror (itself or through its immediate owner or highest-level owner) makes available on a publicly accessible website: (1) the results of a GHG inventory, performed in accordance with an accounting standard with publicly available and consistently applied criteria, such as the GHG Protocol Corporate Standard; and (2) a target to reduce absolute emissions or emissions intensity by a specific quantity or percentage. If an offeror, or its immediate or highest-level owner, makes such public disclosures, the offeror is required to provide the specific website address where their GHG emissions inventory and/or reduction goals are reported, which may be the offeror’s own website or a recognized, third-party GHG emissions reporting program.

While the current provision at FAR 52.223-22 and the equivalent representations in the commercial provision at FAR 52.212-3(t) do not currently mandate public disclosure of GHG emissions or reduction goals, it provides a means to survey the existing landscape of Federal suppliers to determine the maturity of industry in considering the impacts of climate change on and financial risk posed to their operations. In fiscal year (FY) 2021, approximately 10,761 active Federal contractors represented that they (themselves or through their immediate owner or highest-level owner) made available on a publicly accessible website the results of a GHG inventory, performed in accordance with an accounting standard with publicly available and consistently applied criteria, such as the GHG Protocol Corporate Standard. Of those 10,761 that publicly disclose emissions, 6,295 (58 percent) also represented that they disclose a quantitative GHG emissions reduction goal.

3.4 General Services Administration Mandatory and Voluntary Climate Disclosures
3.4.1 Alliant 2 Governmentwide Acquisition Contracts

The General Services Administration (GSA) currently requires contractors that have been awarded Alliant 2 Governmentwide Acquisition Contracts (GWACs) to provide evidence of ongoing measurement and reduction of the energy and environmental impacts of services provided, including but not limited to, use of energy and nonrenewable resources and emissions of carbon pollution, via annual Sustainable Practices and Impact Disclosures.4

Contractors are required to submit their “Sustainable Practices and Impact Disclosures” online using any of the following systems/online portals as an efficient means to share standardized disclosures with the delegated GWAC Ordering Contracting Officers:

- CDP (formerly Carbon Disclosure Project) at www.cdp.net.
- Posting the disclosure, or a link to the disclosure, on the contractor’s GWAC web site.

Not all individual content specified in the CDP and/or GRI reporting systems is required by GSA; detailed content required by GSA is specified under the contract milestone deliverables. GHG inventories required under the milestone deliverables are required to be prepared in accordance with the World Resources Institute/World Business Council for Sustainable Development GHG Protocol Corporate Accounting and Reporting Standard, ISO 14064 standard, or similar GHG reporting standard.

3.4.2 Voluntary CDP Supply Chain Climate Change Information Request

Since 2017, GSA has directed CDP to include several hundred major Federal contractors annually among its potential survey respondents. In accordance with 31 U.S.C. 3512(c)(1)(b), GSA uses the information received from these companies via CDP to inform and develop purchasing policies and contract requirements necessary to safeguard Federal assets against waste, loss, and misappropriation resulting from unmitigated exposure to supply chain energy market and environmental risks.

The CDP Supply Chain Climate Change Information Request is an electronic questionnaire designed to collect information that is widely used by large commercial and Governmental organizations to understand, assess, and mitigate potentially disruptive and costly supply chain risks and environmental impacts. The questionnaire is administered by CDP North America, Inc., a 501(c)(3) nonprofit organization (“CDP”). CDP administers the questionnaire annually on

behalf of over 590 institutional investors, 200 major corporations, and several large Governmental purchasing organizations, including GSA. CDP’s most recent annual survey was directed to over 20,000 companies, with over 9,600 electing to respond.

This collection request is for GSA to direct CDP to survey specific recipients using CDP’s standard questionnaire. CDP, not GSA, is solely responsible for authoring and administrating the questionnaire. GSA is not requesting (and does not have the ability as part of CDP’s process) to revise the questionnaire, including to revise questions or to include or exclude specific questions. GSA-requested recipients will be notified both by CDP and directly by GSA that GSA is a sponsor of the collection and will use the information.

GSA will also use the information in accordance with E.O. 13990 Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis (2021), January 20, 2021; E.O. 14008, Tackling the Climate Crisis at Home and Abroad, January 27, 2021; and E.O. 14030, Climate-Related Financial Risk, May 20, 2021, to inform development of policies and programs to reduce climate risks and GHG emissions associated with Federal procurement activities. For example, GSA has used CDP information in recent years to perform critical market research in connection with multibillion-dollar strategic contracting efforts. In one case, GSA determined that data center facilities used by potential network infrastructure providers could be at risk due to flooding, extreme heat, or lack of available cooling water sources, placing Federal client operations at risk. In another case, GSA used information from the CDP survey to research potential contractors’ existing risk mitigation and GHG reduction practices and to design appropriate contract requirements to ensure that contractors assess and mitigate these risks and reduce GHG emissions associated with their Federal contract activities. In another case, GSA determined that energy savings practices available to potential information technology service providers could significantly lower their overhead costs and that this would likely reduce contract costs for GSA and other Federal agencies. GSA again used CDP information to research current contractor practices and to design appropriate contract requirements to encourage contractors to reduce their costs. GSA uses the information received via this collection to verify contract compliance under these existing programs, as well as to research new development of other similar policies and programs.

4. Benefits

The Federal Government is the world’s single largest purchaser of goods and services, spending over $650 billion in contracts in fiscal year 2020 alone.\(^5\) Public procurement can shift markets, 

drive innovation, and be a catalyst for adoption of new norms and global standards. Requiring significant and major contractors to publicly disclose their GHG emissions and requiring major contractors to publicly disclose their climate-related financial risk and science-based targets will give visibility to major annual sources of GHG emissions and climate risks throughout the Federal supply chain and could, in turn, provide insights into the entire U.S. economy. While disclosure alone does not reduce emissions and climate risk, the expectation of increased public transparency and accountability may prompt suppliers to take action following a “what gets measured gets managed” mantra, and thus increase the resilience of the Federal supply chain.6

Several discrete categories of benefits are expected from this regulation: identifying areas for increased efficiency and reduced risks; understanding and reduction of supply chain vulnerabilities; aligning targets to address climate change; improved transparency, accountability, and ability of Federal agencies to collaborate with contractors; and increased efficiency of disclosure via standardization.

4.1 Identifying areas for increased efficiency and reduced risks

Companies who are required to publicly disclose their GHG emissions and climate risks may be prompted to thoroughly investigate their operations and supply chains, which may, in turn, reveal opportunities to realize efficiencies and manage risks. Any efficiency improvements would, in turn, flow into the company’s performance on Federal contracts. The activity data that is examined (e.g., fuel and electricity bills) to conduct a GHG inventory can reveal areas where efficiencies may be realized. After conducting a GHG inventory, many companies may choose to address sources of emissions. For example, the Federal Government’s assessment of its GHG footprint has revealed the most significant areas of GHG emissions and climate risks across the Federal Government’s own operations and supply chains, which prompted the Federal Sustainability Plan to establish ambitious programs to address them: zero emissions vehicles, carbon pollution free electricity, net zero buildings, and net zero procurement.7 Companies take widely varied approaches to managing operational efficiencies relevant to their GHG emissions, ranging from no action to opportunistic system upgrades to purchasing offsets to address emissions outside of a company’s boundaries. By requiring the development, maintenance, and public disclosure of contractor GHG inventories and reduction targets, this rule may prompt contractors to undertake a comprehensive analysis of their energy and fuel use, electricity procurement, and other emissions sources (e.g., refrigerants, agricultural and industrial activities), which may prompt action to invest in GHG management opportunities across their facilities, operations, and supply chains with multiyear paybacks. Well-managed contractors may

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choose to voluntarily manage GHGs and cost savings, but these expanded expectations will set a level playing field for a wider range of contractors to get started.

Those contractors who choose to address GHG emissions may experience benefits in cost savings, as shown by the Government’s own experience as well as that of contractors who have voluntarily disclosed emissions. The Federal Government has tracked and publicly disclosed its Scope 1 and 2 emissions annually since 2008, while implementing targets for energy and water efficiency and emissions reduction. The Government’s practice of setting and meeting these targets has led to a reduction of 32.2 percent in Federal agency emissions from standard operations since 2008,\(^8\) a reduction in total annual energy use (including all facility and mobile sources) from approximately 1,143,000 Billion British thermal units (BBtu) in 2008 to 849,000 BBtu in 2020 (a 25 percent reduction),\(^9\) and a reduction of total annual energy costs from $29.4 billion in 2008 to $17.1 billion in 2020 (reduction of $12.3 billion annually, or 41.8 percent, in inflation-adjusted dollars).\(^10\) Similarly, in 2021, companies (including, but not limited to, Federal contractors) disclosing emissions and climate risk through the CDP disclosure system independently reported emissions and cost savings from emissions reduction activities implemented in the given reporting year; in aggregate, these benefits collectively amounted to 1.8 billion metric tons (MT) CO\(_2\)e in emissions reductions with over $29 billion in associated cost savings for those suppliers.\(^11\) Public disclosure of this information in a standardized format creates a global database that can be utilized for tracking year-over-year progress, sharing ideas among companies with similar emissions profiles, and enabling benchmarking of performance.

### 4.2 Understanding and reduction of supply chain vulnerabilities

In accordance with E.O. 14030, this proposed rule would require major contractors who have a significant share of Government business to identify their climate-related financial risks, including physical and transition risks. These risks could impact the contractor’s business operations in the short, medium, and long-term. The required disclosures will prompt entities to investigate and understand these risks, develop plans to mitigate them, and communicate the risks and mitigation plans to the public and Federal agencies. These disclosures will enable the Government to understand how and when the risks faced by major contractors (some of which

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\(^10\) Ibid.

are mission-critical) and their supply chains, including but not limited to increased likelihood of disruptive climate and weather events and material and energy cost fluctuations, may impact the agencies’ own missions and activities. This understanding will increase the effectiveness of the Federal supply chain by enabling agencies to develop and improve their own plans to safeguard their assets and missions, ensuring uninterrupted provision of critical services to the U.S. public. Currently, the Federal Government and general public have significantly reduced visibility into the preparedness of major contractors upon whom the Government relies on for products and services (some of which are critical). For example, per a U.S. Government Accountability Office (GAO) report, in October 2012, Superstorm Sandy caused widespread damage to logistics and transportation networks throughout the Northeast, leading to major fuel shortages for agencies to overcome while providing critical Federal services, such as disaster relief and mail delivery, and causing an estimated $70 billion in direct damages and lost economic output.12

Mitigating the effects of climate change by reducing emissions can provide important economic, ecological, and social benefits by significantly reducing major risks to the U.S. economy. According to the U.S. Fourth National Climate Assessment, a Congressionally mandated, joint report of thirteen U.S. agencies with research programs and expertise on changes in the global environment and their implications for society:

In the absence of more significant global mitigation efforts, climate change is projected to impose substantial damages on the U.S. economy, human health, and the environment. Under scenarios with high emissions and limited or no adaptation, annual losses in some sectors are estimated to grow to hundreds of billions of dollars by the end of the century. It is very likely that some physical and ecological impacts will be irreversible for thousands of years, while others will be permanent.13

4.3 Aligning targets to address climate change

The Federal Government has committed to reducing its Scope 1, 2, and 3 GHG emissions, including those associated with Federal procurement activities, to achieve a net zero economy by 2050.14 As the single largest purchaser in the world, Federal procurement represents both a substantial contribution to climate change emissions and a significant opportunity to reduce them. GSA has estimated that emissions from contractors performing Federal contracts are significantly greater (150 million MT CO2e) in Fiscal Year 2019 than emissions from Federal

14 See E.O.s 14057, 14008, and 13990 and Federal Sustainability Plan at https://www.sustainability.gov/Federalsustainabilityplan/procurement.html
buildings and non-tactical fleets (37 million MT CO₂e). The Federal Government has committed to a 65 percent reduction in its Scope 1 and 2 operational emissions by 2030 (from 2008 levels), demonstrating it is doing its part via internal operations to achieve the U.S. Nationally Determined Contribution of a 50–52 percent economy-wide reduction in emissions by 2030. In order to similarly reduce its much greater Scope 3 emissions, the Federal Government’s best solution is to require that its major contractors quantify their GHG emissions and set science-based targets to align ambitions and identify areas for collaboration on shared goals.

According to the EPA, in addition to global or national economic benefits, forward thinking organizations also recognize internal benefits of setting and publicly disclosing GHG reduction targets, including increasing senior management attention and funding for investing in GHG reduction projects, encouraging innovation, improving employee morale, and helping to recruiting and retain qualified employees. CDP’s 2021 post-disclosure survey found that 76 percent of responding companies say climate disclosure helps “boost their competitive advantage” and 86 percent say that “protecting and improving the reputation of my organization” is an important benefit of disclosure.

More than 3,600 companies globally, representing over one third of the global economy’s market capitalization, have voluntarily committed to setting science-based targets for reducing emissions. A 2018 survey of 185 company executives from SBTi-committed businesses found that 79 percent of companies experienced a brand reputation boost, 63 percent saw an increase in innovation, 55 percent reported that preparing for a low-carbon transition led to a newly earned competitive advantage.

Companies with targets validated by SBTi are reducing emissions at an accelerating pace, collectively achieving 12 percent Scope 1 and 2 emissions reduction in 2020 and a total emissions decrease of 29 percent between 2015 and 2020. According to SBTi’s science-based target setting methodologies, an annual emissions reduction of at least 4.2 percent is required to align organizations with the Paris Agreement goal of 1.5°C maximum global temperature rise. Requiring that major contractors set, disclose and maintain validation of such ambitious climate targets can thus be an effective tool for addressing the Federal Government’s Scope 3 emissions

16 https://www.sustainability.gov/Federalsustainabilityplan/emissions.html
18 https://www.epa.gov/climateleadership/target-setting
19 https://www.cdp.net/en/companies-discloser
20 https://sciencebasedtargets.org/
21 https://sciencebasedtargets.org/blog/six-business-benefits-of-setting-science-based-targets
and associated risks of climate change to the national economy, while providing economic and other benefits to the contractors themselves.

4.4 Improved transparency, accountability, and ability to collaborate with suppliers

Without knowledge of existing “hot spots” (emissions-intensive sectors and activities) and cost-effective emissions reduction opportunities, it may be difficult for Federal agencies and contractors to understand where to start in seeking to reduce emissions, how to prioritize emissions reduction programs and activities, and how much to invest in each. Public disclosure provides transparency into the historical costs and impacts of organizational strategies and activities, the current management strategies of peer and partner organizations, and their future-focused targets. Disclosure of climate risks and management strategies enables benchmarking and collaborative opportunities (1) between Federal contractors and (2) between contractors and the Government, thereby increasing economy of efforts. Public disclosures thus benefit collective accountability for the shared challenge of addressing climate change throughout the global economy and enable transparent tracking of progress over time.

Furthermore, for companies with significant Scope 3 emissions, supply chain engagement can be an opportunity for further efficiency, collaboration and innovation. In 2021, of the 13,000 companies reporting through CDP, 71 percent of companies reported their Scope 1 and 2 emissions, while only 20 percent reported emissions associated with products and goods they purchase (Scope 3). However, Scope 3 emissions for a company are, on average, over 11 times higher than operational emissions.23 Companies can calculate Scope 3 emissions using a hybrid approach of disclosed and modeled data that improves over time as data quality and supplier engagement improve. Only 38 percent of companies who disclose through CDP currently report that they engage their own suppliers on sustainability, however those who do engage suppliers realize significant cost and emissions savings; companies engaging their suppliers through CDP resulted in a reduction of 231 million tons of CO2e in 2021.24 Supplier engagement represents an opportunity for many companies to drive additional benefits for the Federal government and national economy by encouraging contractors to work with their suppliers, contractors, and other entities in their supply chains to identify cost-effective ways to reduce emissions. Through this rule, the Federal Government will communicate to its prospective contractors and their supply chains that transparent disclosure and management of supply chain GHG emissions and climate

risk can be a matter of social license to operate and contractual access to important customers, thus multiplying the potential for reducing energy costs and associated emissions.

4.5 Increased efficiency of disclosure via standardization

In addition to the above benefits, this rule will lead to increased efficiency in the processes and industries by which companies disclose climate related financial risks. By aligning with global standards such as the TCFD recommendations and SBTi target-setting methodologies, as well as the leading centralized data platform CDP (which implements and is aligned with TCFD), this rule will reinforce existing industry trends toward standardization around these systems, which are already used by large numbers of U.S. companies because they are required in order to meet the demands of other entities, such as non-Federal customers and investors. The standards and systems required by this rule will thus allow affected companies to develop disclosures that efficiently meet multiple requirements for Federal procurement (this rule), access to capital markets (investors’ needs), and other existing market requirements (such as ratings and rankings systems). Much of this standardization to date has occurred outside of Federal Government, led by NGOs, investors, companies and ratings and rankings platforms, as well as cities, states, and other national governments. As discussed in section 3.2 of this analysis, the SEC recently proposed a regulation that would require similar (with discrete differences) annual disclosures of climate related financial risk for SEC registrants, including publicly listed/traded companies, many of whom are also Federal contractors.25 To the extent that there may be alignment between the SEC’s proposed rule and this rule if both are adopted, companies making these disclosures and users of the information (e.g., the Federal Government, investors, and other entities) will benefit from greater standardization of climate-related disclosures.

5. Impact on Federal Contractors

5.1 General Compliance Requirements

5.1.1 Representations in SAM

All offerors that register in SAM will be required to represent in paragraph (d)(1) of the revised provision at FAR 52.223-22 (or the equivalent revised representations in the commercial provision at FAR 52.212-3(t)) whether the offeror meets the definition of a significant or major contractor (see definitions in section 2 of this analysis). Only offerors that represent that they are

a significant or major contractor will be required to complete the remaining representations in paragraphs (d)(2) through (d)(5) of the provision at FAR 52.223-22 (or the equivalent representations in the commercial provision at FAR 52.212-3(t)(3)(ii) through (v)). An offeror will represent in paragraph (d)(2) of the provision whether it meets an exception to the new policy per the new section at FAR 23.XX04. The contracting officer uses the offeror representations in this paragraph to determine if an offeror who represents in paragraph (d)(1) of the provision that it is a significant or major contractor is subject to the new disclosure and compliance requirements.

The representation in paragraph (d)(3) of the provision gathers information about whether a significant or major contractor (itself or through its immediate or highest-level owner) has completed within its current or previous fiscal year a GHG inventory of its annual Scope 1 and Scope 2 emissions, as well as the total Scope 1 and Scope 2 emissions identified in its most recent GHG inventory.

The representations in paragraph (d)(4) and (d)(5) of the provision gather information regarding whether a major contractor (itself or through its immediate or highest-level owner) makes available on a publicly accessible website:

- An annual climate disclosure that was completed using the CDP Climate Change Questionnaire, aligned with the TCFD recommendations, within its current or previous fiscal year; and
- A science-based target that has been validated by SBTi within the previous five calendar years.

An offeror that is a major contractor is also required to report in paragraph (e) of the provision at FAR 52.223-22 (or the equivalent representation in the commercial provision at FAR 52.212-3(t)(4)) the website(s) where the annual climate disclosure and validated science-based target are made publicly available. While the compliance requirements referenced in the last two representations at paragraphs (d)(4) and (d)(5) are only applicable to major contractors, both significant and major contractors will be required to complete these representations. This allows the Government to monitor whether significant contractors are taking steps to provide enhanced climate disclosures and to reduce their GHG emissions.

5.1.2 Greenhouse Gas Inventory

Starting one year after publication of a final rule, a significant or major contractor must follow the GHG Protocol Corporate Accounting and Reporting Standard to complete a GHG inventory of its Scope 1 and Scope 2 emissions. Starting two years after publication of a final rule, major contractors will also inventory relevant Scope 3 emissions.

Companies completing a GHG inventory for the first time will often begin by reviewing accounting standards and methods, determining organizational and operational boundaries, and choosing a reporting and base year. They will collect data aligned to that year from across the business (including but not limited to fuel purchases, such as gasoline and heating oil, and electricity bills) and utilize a GHG calculator to determine the associated GHG emissions emitted across Scope 1, Scope 2, and (if applicable) relevant Scope 3 emissions expressed in MT CO2e. Companies will likely develop a GHG Inventory Management Plan to formalize data collection procedures, in order to ensure consistency on an annual basis.

5.1.3 Annual Climate Disclosure.

Starting two years after publication of a final rule, a major contractor must provide an annual climate disclosure that aligns with the 2017 Recommendations of the TCFD and the 2021 TCFD update.

In 2017, the TCFD launched recommendations to improve and increase reporting of climate-related financial information. The TCFD recommendations cover Governance, Strategy, Risk Management, and Metrics and Targets. Climate-related risks are considered across two major categories: (1) risks related to the transition to a lower-carbon economy, and (2) risks related to the physical impacts of climate change. Governments around the world are asking companies to provide consistent and decision-useful information to market participants in line with TCFD recommendations (see https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf). In 2021, the TCFD updated its implementation guidance for the 2017

\(^{26}\) Per https://www.wri.org/initiatives/greenhouse-gas-protocol, “It is now the most widely used accounting tools to track GHG emissions, with nine out of ten Fortune 500 companies reporting to CDP use our comprehensive global standardized framework.”

Companies following the TCFD recommendations will assess two types of climate risks: (1) transition risks associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations; and (2) physical risks emanating from climate change, which can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires), as well as longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise).

A major contractor (itself or through its immediate or highest-level owner) must provide its annual climate disclosure by completing the CDP Climate Change Questionnaire. CDP is an international non-profit organization which runs a global environmental disclosure system. CDP’s annual Climate Change Questionnaire enables companies to report GHG emissions and climate change risk through a standard process and make their environmental impact transparent to interested parties. Companies disclose annually by submitting a response to the CDP Climate Change Questionnaire through CDP’s online response system (ORS). Companies utilize the GHG Protocol Corporate Accounting and Reporting Standard when completing their GHG inventory to disclose through CDP. CDP’s disclosure platform provides the mechanism for reporting climate-related financial risks in line with the TCFD recommendations as well as reporting annual progress towards science-based targets.

CDP operates an annual disclosure cycle that enables companies to disclose results at the request of investors, the general public, corporate and Government customers, and other interested parties. Each year CDP issues proposed updates to the questionnaire which are open for public consultation in the fall (approximately September) after which the finalized questionnaire and guidance are available early in the next year (approximately January). CDP’s ORS opens once annually (approximately April), and responses must be submitted by a certain date (approximately July). Updated calendars are published by CDP annually: https://www.cdp.net/en/companies-discloser/How-to-disclose-as-a-company.

CDP’s Climate Change Questionnaire prompts users for some disclosures and datapoints that are beyond the scope of this FAR rule. Major contractors are only required to complete the portions of the questionnaire that align with the TCFD recommendations as identified by CDP (https://www.cdp.net/en/guidance/how-cdp-is-aligned-to-the-tcfd), as clarified at 23.XX03(b)(1) and in 52.223-22 and 52.212-3(t). Companies will need to determine what responses in the CDP questionnaire are appropriate or necessary to complete in order to provide a TCFD-aligned annual climate disclosure. Questions beyond those that are necessary to provide an annual climate disclosure for Federal use, as defined by this rule, are considered optional for the
purposes of this rule. Neither the CDP climate scores, nor answers to questions beyond those necessary to provide a complete annual climate disclosure, will be used to evaluate compliance with this FAR rule. However, these additional datapoints may be of interest to investors, other customers besides the Federal Government, or the general public who also rely on CDP disclosures to evaluate corporate climate performance.

Companies receive an invitation to disclose once annually through CDP on behalf of all investors, corporate customers, and/or Government customers requesting their response. Companies who have not received an invitation can indicate their intention to disclose as a “self-selected company (SSC)” by contacting respond@cdp.net. Companies complete and submit their response to the CDP Climate Change Questionnaire through CDP’s ORS. The CDP Climate Change Questionnaire can be saved in draft form in the ORS, exported for internal completion and review, and then submitted through the ORS prior to the relevant deadline. CDP provides detailed guidance to support companies in understanding and completing the questionnaire (see https://www.cdp.net/en/guidance/guidance-for-companies).

5.1.4 Science-Based Targets.

Starting two years after publication of a final rule, a major contractor will also be required to develop (itself or through its immediate or highest-level owner) a science-based target and have the target validated by the SBTi. SBTi is a partnership between CDP, the United Nations Global Compact (UNGC), the World Resources Institute (WRI), and the World-Wide Fund for Nature (WWF, also known as the World Wildlife Fund). Science-based targets provide a clearly-defined pathway for companies to reduce GHG emissions in line with reductions deemed necessary by SBTi, based on analysis of the latest climate science, to meet the goals of the Paris Agreement—limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C. Companies can commit to set a science-based target and then, within two years, develop a science-based target and have it validated through the SBTi target validation process.

Companies can commit to set a science-based target by submitting a letter to SBTi. All committed companies are recognized as “Committed” on the SBTi website. Once committed, a company has 24 months to submit their targets to SBTi for validation. Companies independently develop their science-based target in line with science-based criteria (including sector-specific guidance, where relevant), which are available on the SBTi website (https://sciencebasedtargets.org/). Companies then submit the science-based target to SBTi for validation. Validated targets are published one month after validation, unless otherwise instructed. Targets not receiving validation are provided with detailed feedback from expert reviewers and an opportunity to resubmit. Following validation, companies should disclose emissions annually and monitor progress on reaching the target.
5.2 Estimated Public Costs.

5.2.1 Source Data and Assumptions

The following is a summary of the sources of data used and assumptions made to develop the total estimated cost of compliance described in section 5.2.2 of this analysis.

5.2.1.1 Impacted Entities

According to SAM, as of January 2022, approximately 491,690 entities are registered as interested in pursuing Federal Government contracts, of which approximately 364,290 (74 percent) were registered as small for their primary NAICS code. These existing registrants and new registrants would be required to respond to the revised annual representation in SAM for the FAR provision 52.223-22 and/or the commercial equivalent at FAR 52.212-3(t).

According to award data available in the Federal Procurement Data System (FPDS), there were approximately 4,413 entities that received between $7.5 million and $50 million in Federal contract obligations in FY 2021, of which 2,835 (64 percent) are estimated to be small businesses. There were approximately 1,353 entities that received more than $50 million in Federal contract obligations in FY 2021, of which 389 (29 percent) are estimated to be small businesses. The following is a summary of the number entities expected to be impacted by this rule based on the data in FPDS:

<table>
<thead>
<tr>
<th>Type of Entity</th>
<th>Obligation Range</th>
<th>Other Than Small Business</th>
<th>Small Business</th>
<th>All (Regardless of Size)</th>
<th>% Small Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant Contractor</td>
<td>$7.5M–$50M</td>
<td>1,578</td>
<td>2,835</td>
<td>4,413</td>
<td>64.24%</td>
</tr>
<tr>
<td>Major Contractor</td>
<td>&gt;$50M</td>
<td>964</td>
<td>389</td>
<td>1,353</td>
<td>28.75%</td>
</tr>
<tr>
<td>All Entities</td>
<td>$7.5 +</td>
<td>2,542</td>
<td>3,224</td>
<td>5,766</td>
<td>55.91%</td>
</tr>
</tbody>
</table>

Table 1. Estimate of impacted entities by category (i.e., significant contractors or major contractors) and by business size.

As discussed in section 3.3 of this analysis, according to SAM, approximately 10,761 registrants indicate that they currently inventory and publicly disclose their GHG emissions and 58 percent of those registrants also disclose quantitative GHG emissions reduction goals. Further analysis of SAM registrant representations and FPDS award data indicates that, of the 964 major contractors (other than small business) that are expected to be impacted by this rule, 293 represent that they currently disclose their GHG emissions (of which 242 set reduction goals), while 671 indicate that they do not currently disclose any information about emissions or reduction goals.
In addition, a review of the public disclosure websites reported in paragraph (c) of the provision at FAR 52.223-22 (or in paragraph (t)(3) of the commercial provision at FAR 52.212-3) indicates there are approximately 122 distinct disclosures associated with the 293 major contractors who currently disclose. In other words, of the 293 contractors, approximately 42 percent appear to be disclosing data compiled by their immediate owner or highest-level owner, whereas the other 58 percent are performing the calculations and compiling the climate disclosures directly.

5.2.1.2 Wage Rates

In this analysis, wage rates were identified to distinguish between internal costs and external costs. For internal costs, this analysis refers to the mean hourly wage rate for certain occupation profiles as reported by the Bureau of Labor Statistics in May of 2021.\(^{27}\) Per the BLS Employer Costs for Employee Compensation (ECEC) for Private Industry, as of December 2021, wages and salaries make up 70.5 percent of an employer’s compensation costs, while other employee benefits (e.g., leave, taxes, retirement, insurance) make up the other 29.5 percent. Based on the BLS ECEC, a factor of approximately 42 percent (29.5/70.5) is applied to each rate to account for total fringe benefits.\(^{28}\) The rate plus the fringe benefit is further adjusted to account for overhead (OH) expenses, by applying a factor of 12 percent.\(^{29}\) The following is a summary of the wage rates used to calculate the costs for impacted contractors:

<table>
<thead>
<tr>
<th>Occupation Profile</th>
<th>Mean Wage</th>
<th>Fringe (~42%)</th>
<th>Wage + Fringe</th>
<th>OH (12%)</th>
<th>Loaded Rate</th>
<th>Rounded Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>11-0000 Management Occupations(^{30})</td>
<td>$59.31</td>
<td>$24.82</td>
<td>$84.13</td>
<td>$10.10</td>
<td>$94.22</td>
<td>$94</td>
</tr>
<tr>
<td>13-1111 Management Analysts(^{31})</td>
<td>$48.33</td>
<td>$20.22</td>
<td>$68.55</td>
<td>$8.23</td>
<td>$76.78</td>
<td>$77</td>
</tr>
<tr>
<td>13-1199 Business Operations Specialists(^{32})</td>
<td>$38.10</td>
<td>$15.94</td>
<td>$54.04</td>
<td>$6.49</td>
<td>$60.53</td>
<td>$61</td>
</tr>
<tr>
<td>19-2041 Environmental Specialists(^{33})</td>
<td>$39.06</td>
<td>$16.34</td>
<td>$55.40</td>
<td>$6.65</td>
<td>$62.05</td>
<td>$62</td>
</tr>
</tbody>
</table>

Table 2. Summary of loaded wage rates for labor categories used to estimate internal costs.

For external costs (or consultant costs), this analysis uses a wage rate of $140 per hour. This rate was selected based on information available in the GSA Price Estimating Tool. This tool can be used to view and analyze One Acquisition Solution for Integrated Services (OASIS) contract

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\(^{29}\) See Attachment C of OMB Circular A-76 Revised issued May 29, 2003.

\(^{30}\) See BLS profile for management occupations (major group) at [https://www.bls.gov/oes/current/oes110000.htm](https://www.bls.gov/oes/current/oes110000.htm).


labor rate information.\textsuperscript{34} Using the BLS wage rate for an environmental specialist ($39.06/hour) and selecting the highest burden factor of 250 percent, the tool indicated a fully burdened rate of $140 per hour.

5.2.1.3 Responses to Request for Information From SEC’s Acting Chair

On March 15, 2021, the SEC’s Acting Chair Allison Herren Lee posted a request for information (RFI) on costs associated with preparation of annual climate disclosures.\textsuperscript{35} Several respondents provided specific cost data for companies that currently provide annual climate disclosures that align with the TCFD or other voluntary disclosure frameworks.\textsuperscript{36} Additionally, consulting companies submitted information on prices charged for associated climate consultant services. DoD, GSA, and NASA have leveraged the cost information and data points provided in response to the RFI to estimate the costs of this proposed FAR rule. The following is a discussion of the cost and burden estimates submitted to the SEC by entity.

Society for Corporate Governance

The Society for Corporate Governance (“Society”) surveyed a small number of public companies that currently disclose climate change-related information under various voluntary disclosure frameworks about their approximate costs of compiling climate change-related information.\textsuperscript{37} The following is a summary of some of the responses categorized by business type:

Basic Materials. This unidentified large cap company prepares an annual climate report pursuant to the GRI and Sustainability Accounting Standards Board (SASB) that covers scope 1, 2, and 3 emissions. Its costs are summarized as follows:

- Ten (10) full-time equivalents (FTEs) are utilized in a variety of functional areas to prepare the sustainability report.
- The company expects to spend $330,000 annually on external advisory services, of which $200,000 is for environmental engineering consultants for software and reporting system development, $100,000 is for outside counsel, and $30,000 is for public relations development.
- Additional external fees are for third party assurances.

\textsuperscript{34} See \url{https://buy.gsa.gov/pricing/pet}, which has been decommissioned, but still allows calculations of labor rates.


\textsuperscript{36} See public comments on the RFI available at \url{https://www.sec.gov/comments/climate-disclosure/cl12.htm}.

\textsuperscript{37} See the June 11, 2021, public comment submitted by Darla C. Stuckey, President and Chief Executive Officer, Society for Corporate Governance, available at \url{https://www.sec.gov/comments/climate-disclosure/cl12-8914283-244663.pdf}. 
Based on this information, it is estimated that this company has external costs of $330,000 per year. The Government assumes that the company meant full-time employee instead of full-time equivalent. Since the company did not disclose specific internal cost beyond headcount, it is assumed that the ten employees spend 25 percent of their time (approximately 500 hours in a 2,000-hour work year) on disclosures at the business specialist rate. As such, internal costs for this company are estimated to be approximately $305,000 per year (10 employees * $61/hour * 500 hours/employee).

Financial Services. This large cap company completes the CDP Climate Change Questionnaire and the TCFD report. Its costs are summarized as follows:

- It takes approximately nine months to prepare the TCFD-aligned report and approximately four months for the CDP questionnaire.
- The company utilizes three (3) FTEs, plus other staff from a variety of functional areas.
- Consultant costs are estimated at approximately $50,000 annually.

Based on this information, it is estimated that this company has external costs of $50,000 per year. It is estimated that the three identified FTEs spend 1,500 hours (nine months of effort in a 2,000-hour work year) each at an environmental specialist rate and that 10 other employees at a general business specialist rate spend 40 hours each supporting the FTEs. As such, internal costs for this company are estimated to be approximately $303,400 per year (3 FTEs * $62/hour * 1,500 hours/FTE = $279,000, plus 10 FTEs * $61/hour * 40 hours/FTE = $24,400).

Communications Services. This large cap company gathers metrics and data on GHG emissions for all three scopes, plus other sustainability information, for reporting under the TCFD and the SASB. Its costs are summarized as follows:

- Four (4) FTEs work full time (2,000 hours each) to perform materiality assessments, research, engagement of relevant stakeholders, information collection, drafting, reviewing, vetting / internal controls, reporting, and providing data to third parties.
- The annual recurring costs are estimated to be approximately $1.25 million for monitoring and data quality; supporting CDP, TCDF, carbon abatement and Scope 3 reporting, disclosure preparation tool license; and materiality assessments.
- The company spends $600,000 annually on third party assurances.

Based on this information, it is estimated that this company has internal costs for sustainability reporting of $496,000 a year (4 environmental specialists * $62/hour * 2,000 hours/specialist). External costs are assumed to be $154,000 a year ($1,250,000 minus $496,000 internal costs minus $600,000 for third-party assurances since the FAR proposed rule does not require major contractors to obtain third-party assurances of their annual climate disclosures).
Consumer Staples. This large cap company reports data on its operational energy and water usage, GHG emissions (Scope 1 and Scope 2) and waste diversion; RSPO certified palm oil and CDP - Emissions and Forests. Its costs are summarized as follows:

- Two (2) FTEs (with one additional FTE planned) are fully dedicated to climate reporting and spend 7,500 to 10,000 hours annually in the sustainability and energy departments with support from Legal and Financial Reporting (planned).
- Costs for sustainability consultants are approximately $300,000 annually.

Based on the FTE information provided by the respondent, we estimate this company has internal costs of $372,000 per year (3 environmental specialists * 2,000-hour work year/FTE * $62/hour). We estimate external costs are $300,000 per year.

Healthcare. This large cap company gathers Scopes 1, 2, and 3 emissions and other sustainability data for reporting to the CDP and for collecting, analyzing, and reporting environmental metrics for TCFD disclosure. Its costs are summarized as follows:

- There are 3.2 FTEs dedicated to climate reporting over 10 weeks annually within the company on reporting efforts (e.g., materiality assessments, research, engaging relevant stakeholders, collecting information, drafting, reviewing, vetting / internal controls, reporting, providing data to third parties, etc.). Total hours are 2,940.
- The company spends $390,000 on sustainability consultants that support Energy & Water invoice processing, data roll up, management & emission calculation, CDP reporting support, and other actions. An additional $90,000 is spent on CDP, EcoDesk & EcoVadis Climate Supply Chain Surveys.

Based on this information, it is estimated this company’s internal costs to be $182,280 (2,940 hours * $62/hour). We estimate total external costs to be $480,000 per year.

Climate Risk Disclosure Lab

The Climate Risk Disclosure Lab at Duke Law’s Global Financial Markets Center (“Lab”) surveyed three companies on their current climate disclosure practices, the associated costs, and how these costs may change under a mandatory climate disclosure regime. All three companies report climate information in accordance with multiple voluntary frameworks for disclosure. The following is a summary of the estimated costs associated with those disclosures by category:

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Multinational Financial Institution. This financial institution has a market capitalization of approximately $73 billion.\(^{39}\) This company prepares annual climate disclosures that align with the SASB, TCFD, and CDP. The Lab summarizes the company’s response as follows:

- Annual costs fall between $250,000 and $500,000, but the bulk of the costs are associated with preparation of Chapter 7 of the company’s Universal Registration Document pursuant to a European Regulation, which covers the overall corporate social responsibility strategy and achievements, of which climate change is a subset.
- Cost of first TCFD aligned disclosure was less than $100,000.
- Cost for preparation of the CDP questionnaire did not exceed $100,000.
- Third parties are used for data acquisition and expert analysis to help produce the climate-related disclosures, but costs are not disclosed.

Based on the information provided about completing their first TCFD aligned disclosure and preparation of the CDP questionnaire, it is estimated the total annual cost for this company to produce a TCFD-aligned disclosure and complete the CDP questionnaire is approximately $200,000. The company did not disclose specific third-party costs, so it is assumed that the proportion of costs for this financial institution is similar to the proportion for the financial institution that responded to the Society. As such, external costs are estimated to be $28,297 (14 percent) and internal costs are approximately $171,703 (86 percent) per year.

U.S.-based Industrial Manufacturing Company. This company has a market capitalization of approximately $40 billion and employs approximately 36,000 employees operating in the U.S. and abroad. This company prepares annual climate disclosures that align with the SASB, TCFD, GRI, and CDP. The Lab summarizes the company’s response as follows:

- A team of 20 employees work part-time from November to March to develop climate disclosures. The annual internal cost is between $200,000 and $350,000.
- Third party auditors and consultants cost $400,000 per year. Auditors review data quality and data collection procedures. One full-time consultant works with the team to assist in the preparation of substantive disclosures, advise on adherence to the voluntary frameworks, and prepare web updates.
- Cost of first CDP questionnaire did not exceed $50,000.

Therefore, it is estimated that the total cost for this company to produce and publicize an annual climate disclosure is estimated to be $435,000, which includes $275,000 for internal costs (average of $200,000 and $350,000) and $112,000 for external consultant costs (1 full time consultant * 40 hours/week * 20 weeks *$140/hour = $112,000). Costs for auditor review is

\(^{39}\) Market capitalization converted from EUR to USD at an exchange rate of 1:1.04 and rounded to the nearest billion dollars.
excluded for our cost consideration since this proposed rule does not require auditing or third-party assurances.

**U.S.-based Waste Management Company.** This company has a market capitalization of approximately $2.7 billion with approximately 3,800 employees operating in the U.S. and abroad. The Lab summarizes the company’s response as follows:

- Two “legal and compliance” employees devote 80 hours in total each year to climate disclosures. One “management and administration” employee devotes 2 hours in total each year to climate disclosures. The annual internal cost is approximately $12,600.
- Third parties are used to develop a corporate sustainability report and microsite. These costs range from $60,000 to $160,000 each year, depending on whether a minor or major update to the annual disclosure is required.
- Cost for first TCFD aligned disclosure was less than $100,000.

Based on this information, it is estimated that the total cost for this company to produce and publicize an annual climate disclosure is estimated to be $122,600. This includes $110,000 for external costs (average of $60,000 and $160,000), plus the $12,600 cited for internal costs.

**Williams Companies**

The Williams Companies, Inc. (“Williams”) is a Fortune 500 energy infrastructure company engaged in the gathering, processing, and transportation of natural gas products. Williams summarizes its current costs for environmental, social, and governance (ESG) reporting as follows:

- One full-time management level director dedicates 25 percent of his time to preparation of their sustainability report and related initiatives.
- Gathering data and preparing the sustainability report involves an ESG steering committee of cross-functional leaders.
- The committee is supported by over 60 subject matter experts.
- Third party consulting fees for assistance in ESG and sustainability reporting are more than $250,000.

Based on this information, it is estimated that the total cost for this company to its annual sustainability report is estimated to be $421,500. This includes $250,000 for external consultant costs and $174,000 for internal costs ((1 manager * $94/hour * 500 hours/year in a 2,000-hour work year=$47,000) + (60 SME * $62/hour * 40 hours=$148,800).
S&P Global

S&P Global provided the SEC estimated pricing for their consultant services. S&P Global provides climate analytics and specialist support services to assist companies in preparing TCFD-aligned climate disclosures. Their approach typically involves five steps including: quantifying a company’s baseline carbon footprint, applying scenario analysis, identifying opportunities, setting targets, and engaging and reporting. S&P Global’s offers benchmarking and gap analysis, management interviews, and transition and physical risk assessments. While S&P Global provides a general pricing estimate, which can vary and depends on the scope of work required.

According to S&P Global the total estimated cost for consultant services associated with developing a TCFD-aligned report for a company that has not done any type of analysis of its GHG emissions ranges from $245,000 to $355,000:

- GHG inventory of Scope 1, 2, and 3 emissions: $75,000 to $125,000.
- Preparing a TCFD disclosure: $150,000 to $200,000.
- Target setting: $20,000 to $30,000.

They further estimate that, for a company that only requires assistance conducting transition and physical risk assessments and developing their TCFD-aligned disclosure, the estimated cost for consultant services ranges from $50,000 to $200,000 with the average cost being $100,000. S&P Global also emphasizes that the cost is dependent on how much analysis is required, not necessarily the size of the company.

Persefoni

Persefoni included a summary of the estimated costs associated with compliance with a similar disclosure requirement in the United Kingdom, which is categorized as understated since it assumes no use of external consultants nor additional staffing. Persefoni also suggested that the costs to comply with SEC’s proposed rule may be more closely aligned to the estimated costs for the SEC regulatory implementation of the Extractive Industries Transparency Initiative (EITI). Persefoni asserted that the estimated EITI compliance costs that proved to be material for a company with no fixed assets were as follows:

40 See the February 4, 2022, Memorandum from the Office of the Chair regarding a January 26, 2022, meeting with representatives of S&P Global, with attached data and information, available at https://www.sec.gov/comments/s7-10-22/s71022-sp.pdf.
41 See the November 30, 2021, Memorandum from the Office of the Chair regarding a September 14, November 23, and November 30, 2021 meeting with representatives of Persefoni, with attached data and information available at https://www.sec.gov/comments/s7-10-22/s71022-persefoni.pdf.
• Average initial compliance costs: $130,000 to $1.35 million.
• Average ongoing compliance costs: $51,000 to $1.29 million.

South Pole

South Pole also responded to the SEC RFI with estimated pricing for their consultant services. South Pole provides GHG emissions inventory services.43 Their estimated fees to inventory the Scope 1, Scope 2, and Scope 3 emissions for one company is approximately $10,400 to $104,000.44 South Pole also notes that, on average, it takes one to three months to complete the GHG inventory, which is dependent on the complexity and availability of data.

5.2.1.4 UK Impact Assessment

The SEC also considered the cost information in the impact assessment produced by the United Kingdom (UK) Department for Business, Energy & Industrial Strategy, as part of its Green Finance Strategy, for a UK rule that requires certain TCFD-aligned disclosures from certain businesses.45 The SEC summarizes the costs identified in the UK impact assessment as follows:

• First year familiarization: $17,300 plus $2,600 per subsidiary.
• First year legal review: $4,400.
• Annual governance disclosure: $12,500
• Annual strategy disclosure: $17,900
• Annual risk management disclosure: $14,900
• Annual metrics and targets disclosure: $104,400 in year one, $80,500 subsequent years
• Annual internal audit: $30,300.
• Annual signposting: $100.
• Annual data collection from subsidiaries: $4,300 for parent, $1,700 per subsidiary.

The total estimated cost for a company (assuming no prior experience) is $201,800 in the first year and $177,900 in subsequent years, plus additional costs due to subsidiaries, as applicable.46 The SEC highlights that the UK impact assessment assumes a 25 percent reduction in hour and cost estimates for work related to metrics and targets after the initial year of implementation.

44 Costs converted from EUR to USD at an exchange rate of 1:1.04 and rounded to the nearest hundred.
5.2.1.5 SEC Analysis

The SEC estimated the costs for companies that are SEC registrants to comply with their proposed rule (see section 3.2 of this analysis) as follows:

- For non-SRC registrants, the costs in the first year of compliance are estimated to be $640,000 ($180,000 for internal costs and $460,000 for outside professional costs), while annual costs in subsequent years are estimated to be $530,000 ($150,000 for internal costs and $380,000 for outside professional costs).

- For SRC registrants, the costs in the first year of compliance are estimated to be $490,000 ($140,000 for internal costs and $350,000 for outside professional costs), while annual costs in subsequent years are estimated to be $420,000 ($120,000 for internal costs and $300,000 for outside professional costs).

The SEC cost estimate includes the cost associated with requiring a third-party attestation over the annual filer’s disclosures of GHG emissions to provide investors with an additional degree of reliability regarding the figures disclosed and the key assumptions, methodologies, and data sources the registrant used to arrive at those figures. For limited assurance, the SEC estimates that accelerated filers will incur costs ranging from $30,000 to $60,000 (with a median of $45,000), while large, accelerated filers will incur costs ranging from $75,000 to $145,000 (with a median of $110,000). For reasonable assurance, The SEC estimates that accelerated filers will incur costs ranging from $50,000 to $100,000 (with a median of $75,000), while large, accelerated filers will incur costs ranging from $115,000 to $235,000 (with a median of $175,000). It is noted that the FAR proposed rule does not require contractors to obtain third-party audits or assurances of their inventories or TCFD-aligned disclosures. Only the science-based targets must be validated by a third party (SBTi).

Following the UK Impact Assessment model, the SEC adopts the assumption that, after the first year of implementation, the burden for GHG emissions metrics/targets is reduced 25 percent. The SEC further assumes that the burden associated with qualitative TCFD-aligned disclosures and financial statement preparation is reduced by 10 percent after the initial year of implementation. With respect to rates, the SEC employed a rate of $55 per hour when calculating internal costs and a $400 rate when calculating consultant fees. SEC further assumes that the Scope 3 GHG inventory makes up 50 percent of the burden associated with conducting GHG inventories of Scope 1, 2, and 3 emissions.

47 Ibid., page 372.
48 Ibid., page 383.
49 Ibid., page 432.
50 Ibid., page 432.
51 Ibid., page 424 footnote 1019 for $55 rate and page 437 footnote 1061 for $400 rate.
52 Ibid., page 432 and footnote 1058.
5.2.1.6 Adopted Assumptions

For the purposes of this rule, the SEC assumption that Scope 3 emission inventories make up 50 percent of the costs for GHG emissions inventories is considered reasonable. Additionally, the assumptions about reductions in costs after the first year of implementation are also considered reasonable. We apply a 25 percent reduction in burden for conducting a GHG inventory and a 10 percent reduction for producing a TCFD-aligned disclosure and target. However, as noted by some of the respondents to the SEC RFI, it is acknowledged that some contractors may not see a reduction in costs in some years if a major update is required to their disclosure or target. For the FAR rule we use a fully loaded rate for an environmental specialist of $61, which is calculated on a different basis that the SEC rate. For external consultants, a $140 hourly rate is used in lieu of a $400 hourly rate since our rule does not contemplate a need for auditors as discussed above. See section 5.2.1.2 of this document for the discussion of the rates used for this cost estimate.

For the purposes of estimating the costs of compliance for small businesses, this rule assumes that the effort to become familiar with the rule and to conduct a GHG inventory of Scope 1 and 2 emissions is approximately half the burden for other than small businesses subject to the same requirements. Calculating Scope 1 and 2 emissions most often requires gathering heating, electricity, and gasoline bills/receipts from offices, facilities, and company vehicles, then entering them into a calculator. This differentiation of "half as much time" is based on an assumption that there is a correlation between the number of resources (such as number of employees, number of buildings, vehicle assets, etc.) and the level of effort needed to perform these calculations.

5.2.2 Summary of Estimated Costs

The total estimated public costs associated with this FAR rule in millions over a ten-year period (calculated at a 3-percent and 7-percent discount rate) are as follows:

<table>
<thead>
<tr>
<th>Estimated Costs</th>
<th>3% Discount Rate</th>
<th>7% Discount Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value</td>
<td>$3,935</td>
<td>$3,262</td>
</tr>
<tr>
<td>Annualized</td>
<td>$461</td>
<td>$464</td>
</tr>
</tbody>
</table>

The following is summary of the estimated costs per entity and total costs for regulatory familiarization, annual representations in SAM, GHG inventories of Scope 1 and 2 emissions, annual climate disclosures, and science-based targets.
5.2.2.1 Regulatory Familiarization

Regulatory familiarization includes the amount of time and effort it takes a company to become familiar with the requirements of the proposed rule and the referenced standards. A page count of the various standards and questionnaires is used to calculate the cost for regulatory familiarization. The following is summary of the page counts:

<table>
<thead>
<tr>
<th>Standard or Document</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAR 23.XX, 52.223-22 and/or 52.212-3</td>
<td>115</td>
</tr>
<tr>
<td>GHG Protocol Corporate Standard, 2004 revised edition</td>
<td>116</td>
</tr>
<tr>
<td>Required Greenhouse Gases in Inventories: Accounting and Reporting Amendment, 2013</td>
<td>9</td>
</tr>
<tr>
<td>GHG Protocol Scope 2 Guidance, 2015</td>
<td>120</td>
</tr>
<tr>
<td>GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard Guidance, 2011</td>
<td>152</td>
</tr>
<tr>
<td>2017 TCFD Recommendations of the TCFD</td>
<td>74</td>
</tr>
<tr>
<td>2021 TCFD Annex: Implementing the Recommendations of the TCFD</td>
<td>88</td>
</tr>
<tr>
<td>SBTi Corporate Manual (June 2021 edition)</td>
<td>49</td>
</tr>
<tr>
<td>CDP Climate Change Full Questionnaire</td>
<td>173</td>
</tr>
<tr>
<td>CDP Technical Note on the TCFD</td>
<td>22</td>
</tr>
<tr>
<td>SBTi Target Submission Form</td>
<td>49</td>
</tr>
<tr>
<td>Total pages for all documents</td>
<td>967</td>
</tr>
<tr>
<td>Total pages (excluding Scope 3, CDP, and SBTI guidance)</td>
<td>360</td>
</tr>
</tbody>
</table>

Table 3. Page count of standard, guidance, or questionnaire documents referenced in rule.

Significant contractors

For a significant contractor that is other than a small business, it is estimated that one manager, one management analyst, and two business specialists will spend six minutes per page to review and understand the requirements of the rule and the GHG Protocol Corporate Standard and supplements (excluding the Scope 3 guidance), a total of 360 pages or 36 hours per person. For a significant contractor that is a small business, it is estimated that one manager and one management analyst will spend six minutes per page to read and understand the rule. The per entity cost is summarized as follows:
Regulatory Familiarization: Significant Contractor by Business Size

<table>
<thead>
<tr>
<th>Business size</th>
<th>Labor category</th>
<th>Quantity</th>
<th>Hours/Person</th>
<th>Total Hours</th>
<th>Rate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other than small business</td>
<td>Manager</td>
<td>1</td>
<td>36</td>
<td>36</td>
<td>$94</td>
<td>$3,384</td>
</tr>
<tr>
<td></td>
<td>Management analyst</td>
<td>1</td>
<td>36</td>
<td>36</td>
<td>$77</td>
<td>$2,772</td>
</tr>
<tr>
<td></td>
<td>Business specialist</td>
<td>2</td>
<td>36</td>
<td>72</td>
<td>$61</td>
<td>$4,392</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4</td>
<td>108</td>
<td>144</td>
<td>$73</td>
<td>$10,548</td>
</tr>
<tr>
<td>Small business</td>
<td>Manager</td>
<td>1</td>
<td>36</td>
<td>36</td>
<td>$94</td>
<td>$3,384</td>
</tr>
<tr>
<td></td>
<td>Management analyst</td>
<td>1</td>
<td>36</td>
<td>36</td>
<td>$77</td>
<td>$2,772</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2</td>
<td>72</td>
<td>72</td>
<td>$86</td>
<td>$6,156</td>
</tr>
</tbody>
</table>

Table 4. Regulatory familiarization for a significant contractor by business size.

For the 1,578 significant contractors that are other than small businesses, the total estimated cost for regulatory familiarization in the first year of implementation is $16,644,744 (1,578 businesses * $10,548/business). For the 2,835 significant contractors that are small businesses, the total estimated cost is $17,452,260 (2,835 businesses * $6,156/business). See sections 5.2.1.1 and 5.2.1.2 of this analysis for a discussion of estimated entities and wage rates.

Major contractors

Small businesses are exempt from the compliance requirements related to major contractors. For major contractors that are small businesses, it is estimated that one manager and two management analysts will spend six minutes per page to review the 360 pages and understand the requirements of the rule and GHG Protocol Corporate. For a major contractor that is other than a small business, it is estimated that one manager, two management analysts, and four business specialists will spend six minutes per page to read and understand the requirements of the rule, the GHG Protocol, the TCFD recommendations, the SBTI guidance, and the CDP questionnaire, a total of 967 pages or approximately 97 hours per person. The estimated cost per entity is summarized as follows:

Regulatory Familiarization: Major Contractor by Business Size

<table>
<thead>
<tr>
<th>Business size</th>
<th>Labor category</th>
<th>Quantity</th>
<th>Hours/Person</th>
<th>Total Hours</th>
<th>Rate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other than small business</td>
<td>Manager</td>
<td>1</td>
<td>97</td>
<td>97</td>
<td>$94</td>
<td>$9,118</td>
</tr>
<tr>
<td></td>
<td>Management analyst</td>
<td>2</td>
<td>97</td>
<td>194</td>
<td>$77</td>
<td>$14,938</td>
</tr>
<tr>
<td></td>
<td>Business specialist</td>
<td>4</td>
<td>97</td>
<td>388</td>
<td>$61</td>
<td>$23,668</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>7</td>
<td>291</td>
<td>679</td>
<td>$70</td>
<td>$47,724</td>
</tr>
<tr>
<td>Small business</td>
<td>Manager</td>
<td>1</td>
<td>36</td>
<td>36</td>
<td>$94</td>
<td>$3,384</td>
</tr>
<tr>
<td></td>
<td>Management analyst</td>
<td>2</td>
<td>36</td>
<td>72</td>
<td>$77</td>
<td>$5,544</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3</td>
<td>72</td>
<td>108</td>
<td>$83</td>
<td>$8,928</td>
</tr>
</tbody>
</table>

Table 5. Regulatory familiarization for a major contractor by business size.
For the 964 major contractors that are other than small businesses, the total estimated cost for regulatory familiarization in the first year of implementation is $46,005,936 (964 businesses * $47,724/business). For the 389 major contractors that are small businesses, the total estimated cost is $3,472,992 (389 businesses * $8,928/business). See sections 5.2.1.1 and 5.2.1.2 of this analysis for a discussion of estimated entities and wage rates.

5.2.2.2 Annual Representations in SAM

All registrants

All 491,690 entities that are registered in SAM as interested in pursuing Government contracts, of which 364,290 entities are considered small for their primary NAICS code (see section 5.2.1.1 of this analysis), will be required to complete the first representation in SAM for the provision at FAR 52.223-22(d)(1) and/or the commercial provision at FAR 52.212-3(t)(3)(i) regarding whether they meet the definition of a significant or major contractor. It is estimated that for each SAM registrant, on average, it will take a business specialist six minutes to determine whether they meet the definition of a significant or major contractor. The total estimated annual cost is $2,999,309 (491,690 registrants * 0.1 hours/registrant * $61/hour), of which $2,222,169 is attributed to 364,290 small businesses. The estimated cost to complete this representation is the same in subsequent years.

Significant contractors and major contractors only

Each of the estimated 5,766 significant and major contractors (see section 5.2.1.1 of this analysis) will be required to complete the remaining representations regarding whether it meets an exception, has completed the GHG inventory of scope 1 and 2 emissions, made an annual climate disclosure via CDP, and set science-based targets. It is estimated that for each SAM registrant, on average, it will take a business specialist one hour to complete the representations. The total estimated annual cost is $351,726 (5,766 registrants * 1 hour/registrant * $61/hour), of which $196,664 is attributed to 3,224 small businesses. The estimated cost to complete these representations is the same in subsequent years.

5.2.2.3 Greenhouse Gas Inventory of Scope 1 and 2 Emissions

The following is a summary of the estimated costs for significant contractors (regardless of size) and major contractors (small businesses only) to complete the GHG inventories of their Scope 1 and Scope 2 emissions. It is expected that a contractor will use a mix of internal personnel and external consultants to complete the annual GHG inventory, the costs of which are discussed in the following subsections.
Major contractors that are other than small businesses are also required to inventory their Scope 1 and 2 emissions; however, their costs are included in the estimated cost to prepare a TCFD-aligned annual climate disclosure, which includes conducting an annual inventory of Scope 1, Scope 2, and relevant Scope 3 emissions (see discussion of costs in section 5.2.2.4 of this analysis). In addition, the burden associated with entering the results of the Scope 1 and 2 GHG emissions inventory information in SAM is included in the estimated costs to complete the annual representation (see section 5.2.2.2 of this analysis).

**Internal personnel**

The estimate for the internal costs associated with conducting a GHG inventory of Scope 1 and 2 emissions is similar to the UK Impact Assessment, which included an estimate for a parent company to gather and compile information about its GHG emissions (see section 5.2.1.4 of this analysis). The UK Impact Assessment estimated one hour for a senior manager, 14 hours for a manager, and 70 hours for administrative staff. Since the UK rule applies to certain companies with 500 or more employees, we use a similar estimate of hours and labor categories to estimate the burden for significant contractors that are other than small businesses. For these contractors, it is estimated that it takes two business specialists 40 hours each to gather information, one management analyst 20 hours to process and compile the information, and one senior manager two hours to review the compiled information. It is estimated that significant and major contractors that are small businesses will spend half as much time conducting the GHG inventory: 20 hours each for business specialist, ten hours for the management analyst, and one hour for the senior manager. As discussed in section 5.2.1.5 of this analysis, we assume a 25 percent reduction in hours for the GHG inventory.

**External consultants**

It is acknowledged that the level of external consultation needed to comply with this rule may vary significantly depending on a variety of factors. As discussed in section 5.2.1.3 of this analysis, S&P Global and South Pole provided a range of costs associated with consultant services, including conducting an inventory of Scope 1, 2, and 3 GHG emissions. S&P Global estimated between $75,000 and $125,000, while South Pole estimated between $10,400 and $104,000. For the purposes of this analysis, we use the average of the low ends of the estimate ($42,700) to estimate the cost for a small business and the average of the high ends of the estimates ($104,000) to estimate the costs for a business that is other than small. As discussed in section 5.2.1.5 of this analysis, the SEC assumes that the cost of conducting an inventory of Scope 3 emissions makes up 50 percent of the cost for GHG emissions metrics and targets. As such, we estimate the external costs associated with Scope 1 and 2 emissions to be half of the average costs quoted by S&P Global and South Pole, approximately $42,700 to $114,500. Like the SEC, we assume a 25 percent reduction in burden in subsequent years. A consultant rate of $140 per hour (see section 5.2.1.2 of this analysis) is used to estimate the number of hours per entity, which is summarized as follows:
Table 6. Summary of estimated external hours per entity to conduct an annual GHG inventory of its Scope 1 and 2 emissions only.

**Total cost summary**

The following is a summary of the internal personnel and external consultant costs per entity to conduct a GHG inventory of Scope 1 and 2 emissions:

Table 7. Summary of the total estimated costs per entity to conduct an annual GHG inventory of its Scope 1 and 2 emissions only.

For the 1,578 other than small business significant contractors, the total estimated cost to conduct Scope 1 and 2 GHG inventories is $100,783,704 (1,578 contractors * $63,868/contractor) in the initial year of implementation and $75,717,174 (1,578 contractors * $47,983/contractor) annually.
thereafter. For the 2,835 significant contractors and 389 major contractors that are small businesses, the total estimated cost is $79,710,176 (3,224 contractors * $24,724/contractor) in the initial year of implementation and $60,095,360 (3,244 contractors * $18,640/contractor) annually thereafter.

5.2.2.4 Annual Climate Disclosure and Science-Based Targets

Summary of Cost Analysis

The cost estimate for a major contractor (other than small business only) to provide an annual climate disclosure through the CDP Climate Change Questionnaire and to set a science-based target is based on an analysis of the internal and external costs submitted by respondents in response to the RFI (see section 5.2.1.3 of this analysis). As stated in the SEC proposed rule, the respondents to the RFI provided information on general costs for climate disclosures. Some respondent estimates included costs for activities not covered by this rule. Other respondents provided an aggregate cost estimate making it difficult to determine how representative the costs are. It is acknowledged that the costs for individual contractors impacted by this rule can vary significantly depending on the contractor’s size, industry, business model, corporate structure, level of experience with climate disclosures, etc.

The following is a summary of the analysis of the estimated internal and external costs associated with developing a TCFD-aligned annual disclosure reported by the respondents to the RFI:

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Entity Type</th>
<th>Internal Costs</th>
<th>External Costs</th>
<th>Total Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Society</td>
<td>Basic Materials</td>
<td>$305,000</td>
<td>$330,000</td>
<td>$635,000</td>
</tr>
<tr>
<td>Society</td>
<td>Financial Services</td>
<td>$303,400</td>
<td>$50,000</td>
<td>$353,400</td>
</tr>
<tr>
<td>Society</td>
<td>Communications</td>
<td>$496,000</td>
<td>$154,000</td>
<td>$650,000</td>
</tr>
<tr>
<td>Society</td>
<td>Consumer Staples</td>
<td>$372,000</td>
<td>$300,000</td>
<td>$672,000</td>
</tr>
<tr>
<td>Society</td>
<td>Healthcare</td>
<td>$182,280</td>
<td>$480,000</td>
<td>$662,280</td>
</tr>
<tr>
<td>Williams</td>
<td>Energy Infrastructure</td>
<td>$195,800</td>
<td>$250,000</td>
<td>$445,800</td>
</tr>
<tr>
<td>Lab</td>
<td>Financial Services</td>
<td>$171,703</td>
<td>$28,297</td>
<td>$200,000</td>
</tr>
<tr>
<td>Lab</td>
<td>Industrial Manufacturing</td>
<td>$275,000</td>
<td>$112,000</td>
<td>$387,000</td>
</tr>
<tr>
<td>Lab</td>
<td>Waste Management</td>
<td>$12,600</td>
<td>$110,000</td>
<td>$122,600</td>
</tr>
<tr>
<td>Average of all respondent estimates</td>
<td>$257,087</td>
<td>$201,589</td>
<td>$458,676</td>
<td></td>
</tr>
</tbody>
</table>

Table 8. Summary of the analysis of RFI respondent cost estimates for producing a TCFD-aligned disclosure, including targets, if applicable.

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53 Ibid., page 372.
Two consultants responded to the RFI provided a summary of the typical fees they charge to support companies in preparing climate disclosures (see section 5.2.1.3 of this analysis). On average, S&P Global charges $300,000 for its consulting services. On the high-end, South Pole cites fees of $104,000 to do a bottom-up analysis for companies. The average of these consultant costs is $202,000, which is considered further validation of the average external costs ($201,589) in the above table.

It is acknowledged that labor hours to complete disclosures or targets will likely be spread across several labor categories, such as business or environmental specialists who help prepare the disclosures and higher-level managers and attorneys who will review and approve the disclosures; however, since the mix of labor categories can vary substantially by contractor and industry, we do not attempt to quantify hours for each labor category in this analysis. For the purposes of estimating the number of hours, the rate for a management analyst ($77/hour) is used to estimate the number of internal personnel hours needed to support the disclosure and target requirements. The rate for a consultant ($140/hour) is used to calculate the number of external hours.

Major contractors (other than small business only) will also be required to pay a fee for SBTi’s validation services (currently $9,500 per entity) every five years, the cost of which is spread across five years ($1,900 per year). As discussed in section 5.2.1.5 of this analysis, we also adopt the SEC assumption that the cost associated with a TCFD-aligned disclosure is reduced by 10 percent in subsequent years.

The following is a summary of the costs for a major contractor (other than small business) to make its annual climate disclosure through CDP and to have their science-based target validated by SBTi:

<table>
<thead>
<tr>
<th>Disclosure and Target: Cost per Entity (No Prior Disclosure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Category</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Internal Personnel Costs</td>
</tr>
<tr>
<td>External Consultant Costs</td>
</tr>
<tr>
<td>SBTi fee ($9,500 every 5 years)</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Table 9. Estimated cost per entity to provide an annual climate disclosure and set science-based targets where the entity does not currently publicly disclose emissions information or a quantitative reduction goal.
As discussed in section 5.2.1.1 of this analysis, 671 of the 964 other than small business major contractors, indicate that they do not currently publicly disclose information about their emissions. Therefore, the total cost for these 671 major contractors is $309,064,613 (671 contractors * $460,603/contractor) in the initial year of implementation and $278,280,475 (671 contractors * $414,725/contractors) annually thereafter.

Consideration of Current Disclosures

Per section 5.2.1.1 of this analysis, approximately 293 of the 964 other than small business major contractors represent that they do publicly disclose information about their emissions, and there are 122 distinct public disclosures associated with these 293 major contractors, indicating that approximately 42 percent of these contractors disclose through an immediate or highest-level owner. Based on this information, two assumptions are made for the purposes of this analysis. First, given that these major contractors (or their immediate owner or highest-level owners) already have policies and procedures in place to inventory and publicly disclose their emissions (and in many cases to also set and disclose reduction goals), the burden associated with complying with this FAR rule is estimated to be 50 percent of the cost of starting with no prior disclosure experience. Given this assumption, the estimated burden associated with providing an annual climate disclosure through the CDP and having science-based targets validated by SBTi for a major contractor who currently discloses is as follows:

<table>
<thead>
<tr>
<th>Disclosure and Target: Cost per Entity (Currently Disclosing Itself or through Its Owner)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost Category</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Internal Personnel Costs</td>
</tr>
<tr>
<td>External Consultant Costs</td>
</tr>
<tr>
<td>SBTi fee ($9,500 every 5 years)</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Table 10. Estimated cost per entity to provide an annual climate disclosure and set science-based targets where the entity currently publicly discloses emissions information or a quantitative reduction goal.

Second, since there are only 122 actual disclosures associated with these 293 major contractors, the burden for the disclosures and targets is considered attributable to the 122 entities preparing the actual disclosures (not each of the 293 major contractors). Therefore, the total costs attributed to this rule for the major contractors that currently disclose either themselves or through an immediate or highest-level owner is $28,217,380 (122 disclosing entities * $231,290/entity) in the initial year of implementation and $25,418,822 (122 disclosing entities * $208,351/entity) annually thereafter.
Total Cost Summary

The following is a summary of the cost per entity to comply with the annual climate disclosure and science-based target setting requirements of this rule:

<table>
<thead>
<tr>
<th>Disclosure Status</th>
<th>Cost Category</th>
<th>Entities</th>
<th>Initial Year</th>
<th>Subsequent Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cost/Entity</td>
<td>Total Cost</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Cost/Entity</td>
</tr>
<tr>
<td>No prior disclosure</td>
<td>Internal</td>
<td>671</td>
<td>$257,103</td>
<td>$172,516,113</td>
</tr>
<tr>
<td></td>
<td>External</td>
<td>671</td>
<td>$201,600</td>
<td>$135,273,600</td>
</tr>
<tr>
<td></td>
<td>SBTi fee</td>
<td>671</td>
<td>$1,900</td>
<td>$1,274,900</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>671</td>
<td>$460,603</td>
<td>$309,064,613</td>
</tr>
<tr>
<td>Currently disclosing (itself or through its immediate or highest-level owner)</td>
<td>Internal</td>
<td>122</td>
<td>$128,590</td>
<td>$15,687,980</td>
</tr>
<tr>
<td></td>
<td>External</td>
<td>122</td>
<td>$100,800</td>
<td>$12,297,600</td>
</tr>
<tr>
<td></td>
<td>SBTi fee</td>
<td>122</td>
<td>$1,900</td>
<td>$231,800</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>122</td>
<td>$231,290</td>
<td>$28,217,380</td>
</tr>
</tbody>
</table>

Table 11. Per entity cost for other than small business major contractor annual climate disclosures and set science-based targets.

Therefore, the total estimated cost of compliance for the 793 disclosures and targets associated with major contractors that are other than small business (or their immediate owner or highest-level owner) is $337,281,993 (671 contractors * $460,603/contractor + 122 disclosing entities * $231,290/contractor) in the initial year of implementation and $303,699,297 (671 contractors * $414,725/contractor + 122 disclosing entities * $208,351/contractor) annually thereafter.

5.2.2.5 Total Public Costs

The total estimated cost associated with this proposed rule is $604,702,840 in the initial year of implementation, of which 17 percent is attributed to small businesses. The total cost estimated in subsequent years is $442,862,866, of which 14 percent is attributable to small businesses.

Total Costs: Per Entity

The following is a summary of the per entity costs by business size and contractor types (e.g., significant contractor, major contractor) for the initial year of implementation and for subsequent years. Costs for all entities are higher during the first year of implementation, because the first year includes the cost for all significant and major contractors to become familiar with the rule.
**Initial Year**

### Table 12. Total cost per entity (by business size and contractor type) in the initial year of implementation.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Small Business</th>
<th>Other than Small Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Significant Contractor</td>
<td>Major Contractor</td>
</tr>
<tr>
<td>Familiarization</td>
<td>$6,156</td>
<td>$8,928</td>
</tr>
<tr>
<td>First SAM Representation</td>
<td>$6</td>
<td>$6</td>
</tr>
<tr>
<td>Remaining SAM Reps</td>
<td>$61</td>
<td>$61</td>
</tr>
<tr>
<td>GHG Inventory (Scope 1/2)</td>
<td>$24,724</td>
<td>$24,724</td>
</tr>
<tr>
<td>Disclosure &amp; Target</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td>$30,947</td>
<td>$33,719</td>
</tr>
</tbody>
</table>

**Subsequent Years**

### Table 13. Total cost per entity (by business size and contractor type) after the initial year of implementation.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Small Business</th>
<th>Other than Small Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Significant Contractor</td>
<td>Major Contractor</td>
</tr>
<tr>
<td>Familiarization</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>First SAM Representation</td>
<td>$6</td>
<td>$6</td>
</tr>
<tr>
<td>Remaining SAM Reps</td>
<td>$61</td>
<td>$61</td>
</tr>
<tr>
<td>GHG Inventory (Scope 1/2)</td>
<td>$18,640</td>
<td>$18,640</td>
</tr>
<tr>
<td>Disclosure &amp; Target</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td>$18,707</td>
<td>$18,707</td>
</tr>
</tbody>
</table>

**Total Costs: By Business Size**

The following is a summary of the total costs by business size for the initial year of implementation and for subsequent years. The total cost includes costs not represented in the per entity cost section of this analysis, such as the burden associated with SAM registrants (other than significant and major contractors) reviewing and completing the first representation:
Small Business

<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>Initial Year</th>
<th>Subsequent Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Cost</td>
<td>% of Total</td>
</tr>
<tr>
<td>Regulatory Familiarization</td>
<td>$20,925,252</td>
<td>25%</td>
</tr>
<tr>
<td>Annual Representations</td>
<td>$2,418,833</td>
<td>72%</td>
</tr>
<tr>
<td>GHG Inventories (Scope 1/2 Only)</td>
<td>$79,710,176</td>
<td>44%</td>
</tr>
<tr>
<td>Disclosures &amp; Targets</td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Cost of Compliance</strong></td>
<td>$103,054,261</td>
<td>17%</td>
</tr>
</tbody>
</table>

Table 14. Total estimated cost of compliance by business size for the initial year and subsequent years of implementation.

Other than Small Business

<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>Initial Year</th>
<th>Subsequent Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Cost</td>
<td>% of Total</td>
</tr>
<tr>
<td>Regulatory Familiarization</td>
<td>$62,650,680</td>
<td>75%</td>
</tr>
<tr>
<td>Annual Representations</td>
<td>$932,202</td>
<td>28%</td>
</tr>
<tr>
<td>GHG Inventories (Scope 1/2 Only)</td>
<td>$100,783,704</td>
<td>56%</td>
</tr>
<tr>
<td>Disclosures &amp; Targets</td>
<td>$337,281,993</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total Cost of Compliance</strong></td>
<td>$501,648,579</td>
<td>83%</td>
</tr>
</tbody>
</table>

Table 15. Total estimated cost of compliance by business size for the initial year and subsequent years of implementation.

6. Impact on Federal Government

6.1.1 Government Activities

6.1.1.1 Upgrades to SAM

The Government will be required to update the representations associated with FAR 52.223-22 and 52.212-3 in the System for Award Management. The adjustment to the representation is considered a medium level of effort that will cost approximately $260,000.
6.1.1.2 Workforce Development

Government contracting officers will need to become familiar with the new policy at FAR 23.XX, the new standard of responsibility at FAR 9.104, and the representations in the provisions at FAR 52.223-22 and 52.212-3. The procedures at FAR 23.XX05 provides tables to help contracting officers evaluate offeror representations. Similarly, FAR 9.104-3(e) includes information on the type of information a contracting officer should request from an offeror that represents that it is not in compliance with the new policy and the minimum requirements that must be met in order to determine a contractor responsible. No specialized training is required for Government contracting officers. The requirement to remain current on policies for Government procurement, such as changes to the FAR, is considered a part of the normal duties of contracting personnel. As such, this analysis does not quantify the time and effort for contracting officers to become familiar with the rule. In addition, there are Federal resources allocated to assisting small businesses in procurement, particularly in the Small Business Administration. It is acknowledged that this there is time and effort for these Federal workforces to become familiar with the rule or the tools available and to assist contractors with compliance, though those potential burden hours and costs are not quantified.

6.1.1.3 Responsibility Determinations

Starting one year after publication of a final rule, Government contracting officers will begin validating prospective contractor representations for FAR 52.223-22(d) and 52.212-3(t)(3) to ensure that significant and major contractors have completed the GHG inventory of Scope 1 and 2 emissions. Starting two years after publication of a final rule, contracting officers will also validate that major contractors have completed annual climate disclosures and set science-based targets. For each award, the contracting officer will log in to https://www.sam.gov, search “Entity Information” for the prospective contractor, select the prospective contractor’s registration, click on “Reps and Certs,” and (depending on the type of acquisition) click on FAR 52.212-3 or 52.223-22 to view the offeror’s representations. If the prospective contractor represents that it is a significant or major contractor, then it must complete all of the remaining representations in the solicitation provision. The contracting officer may use the tables at FAR 23.XX05, Procedures, to assist in determining whether the prospective contractor is subject to an exception and, if not, whether the prospective contractor complies with the policy. Per FAR 23.XX05(c), a contracting officer may rely on these representations when making a responsibility determination, unless the contracting officer has reason to question the representation. If a representation indicates noncompliance, then the contracting officer will request additional information from the prospective contractor to assist in making a responsibility determination.
It is not possible to quantify how often contracting officers will need to request additional information from prospective contractors. Most offerors registering in SAM will represent that they are not a significant or major contractor. It is expected that the majority of significant and major contractors will represent that they are in compliance with the new policy. While it will take longer for a contracting officer to review the representations for a significant or major contractor, it is estimated that it will take the contracting officer three minutes to review most representations. According to FPDS data for FY 2021, there were approximately 276,467 awards valued over the micro-purchase threshold, where contracting officers would be required to make a responsibility determination prior to awarding a contract. We assume that the majority of responsibility determinations are made by a GS-12 / Step 5 contracting officer. Therefore, the total estimated cost is $912,341 (276,467 awards * 0.05 hours/award * $66/hour\textsuperscript{54}).

6.1.1.4 Policy Development

Contract policy offices for Government departments and agencies will need to develop procedures for requesting senior procurement executive (SPE) approval of waivers in accordance with FAR 23.XX06(b). Specifically, the SPE approve a waiver for specific facilities, business units, or other defined units for national security purposes or for emergencies, national security, or other mission essential purposes. In addition, the SPE may approve a waiver to enable a significant or major contractor to come into compliance with the policy at 23.XX03 for a period not to exceed 1 calendar year. Such waivers must be made publicly available on the agency’s website. Developing policies and procedures to support the contracting activities of a department or agency are considered a part of the normal course of doing business for contract policy offices. As such, this analysis does not quantify the time and effort for contracting officers to become familiar with the rule.

6.1.1.5 Analysis of Annual Climate Disclosures

The Government will also use the disclosures made pursuant to this FAR rule to inform development of policies and programs to reduce climate risks and GHG emissions associated with Federal procurement activities, and to incentivize and enable technologies critical to achieving a national economy and industrial sector that are resilient to the physical and transition risks of climate change and net zero emissions by 2050. As stated in OMB Memo M-22-06, to assist the Federal Government in assessing the results of efforts to reduce supply chain

emissions, and as requested by CEQ and OMB, GSA will provide periodic recommendations on further actions to reduce supply chain emissions, based on information and data collected through supplier disclosures pursuant to this FAR rule and other publicly available information. The estimated annual cost for the Government to obtain a report of the data disclosed to CDP is $47,000. GSA further estimates that the annual cost to analyze the data provided is approximately $200,000.

6.1.2 Estimated Government Costs

The total estimated Government costs associated with this FAR rule in millions over a ten-year period (calculated at a 3-percent and 7-percent discount rate) are as follows:

<table>
<thead>
<tr>
<th>Estimated Costs</th>
<th>3% Discount Rate</th>
<th>7% Discount Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value</td>
<td>$10</td>
<td>$8</td>
</tr>
<tr>
<td>Annualized</td>
<td>$1</td>
<td>$1</td>
</tr>
</tbody>
</table>

The total cost covers the cost for the Government to upgrade SAM in the initial year of implementation, the cost for contracting officers to validate prospective contractor representations in SAM each year beginning one year after publication of a final rule, and the cost of analyzing annual climate disclosure information.

7. Total Estimated Costs

The total estimated overall costs associated with this FAR rule in millions over a ten-year period (calculated at a 3-percent and 7-percent discount rate) are as follows:

<table>
<thead>
<tr>
<th>Estimated Costs</th>
<th>3% Discount Rate</th>
<th>7% Discount Rate*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value</td>
<td>$3,945</td>
<td>$3,270</td>
</tr>
<tr>
<td>Annualized</td>
<td>$462</td>
<td>$466</td>
</tr>
</tbody>
</table>

*Total of Government and public costs is higher due to rounding.
8. Alternatives Considered

8.1 Enforcement Mechanisms

The Government considered other mechanisms for enforcement of the compliance requirements. One alternative was to use a contract clause to require submission of the GHG the annual climate disclosure and validated science-based target as a deliverable under Government contracts. This is the same mechanism used for the pilot under the Alliant 2 contracts (see section 3.4.1 of this analysis). However, given the intent to require disclosure at the entity-level disclosure on a contract-by-contract basis is not appropriate. The Government also considered making noncompliance with requirements of this rule a go/no-go decision for award. In this alternative, a significant or major contractor would be ineligible for award of Government contracts unless the significant or major contractor represents that it complies with the new policy. The Government ultimately determined that treatment of contractor compliance as a matter of responsibility, not only establishes the Government’s position that responsible contractors take action to address and reduce climate-related financial risk, but also allows contracting officers some flexibility to determine what actions a noncompliant contractor has taken to comply.

8.2 Thresholds

The Government considered the following thresholds when establishing a definition of “major Federal supplier,” the term used in E.O. 14030: $7.5 million, $50 million, and $250 million. The Government also considered whether the threshold should be based on the total Government contract award value, or the total Government contract funds obligated. Currently, many larger Federal suppliers provide some disclosure, but few set science-based targets. Even fewer smaller suppliers disclose GHG emissions and climate-related risk, and science-based targets are very rare.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>$7.5-$50M</th>
<th>$50-250M</th>
<th>&gt;$250M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclose GHG inventory</td>
<td>&lt;5%</td>
<td>&lt;10%</td>
<td>~50%</td>
</tr>
<tr>
<td>Report climate-related risk</td>
<td>&lt;1%</td>
<td>&lt;5%</td>
<td>~30-50%</td>
</tr>
<tr>
<td>Establish Science-based targets</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
<td>~5%</td>
</tr>
</tbody>
</table>

Table 16. Summary of Federal suppliers voluntarily disclosing GHG emissions or climate-related risk or setting science-based targets.

55 The numbers for the first two segments are estimated as we did not conduct a full, in-depth analysis. Yet, we understand them to be representative.
The Government settled on dual thresholds to ensure smaller Federal suppliers (i.e., “significant contractors” with $7.5 million to $50 million in obligations in the prior FY) take steps to understand their GHG emissions and the larger Federal suppliers (i.e., “major contractors” with more than $50 million in obligations in the prior FY) take steps to disclose climate-related financial risks and to reduce their GHG emissions.