

GHG and climate risk disclosures proposed for federal contractors

At a glance

The federal government proposed rules to require many federal contractors — representing over 85% of federal government spending — to publicly disclose greenhouse gas emissions. Certain “major” contractors would also be required to disclose climate-related financial risk factors and to set science-based greenhouse gas reduction targets.

What happened?

On November 14, the Federal Acquisition Regulatory Council (composed of the Department of Defense, the General Services Administration, and the National Aeronautics and Space Administration, and chaired by the Office of Federal Procurement Policy in the Office of Management and Budget) proposed [new rules](#) that would impact most companies doing business with the federal government. The proposal would require “major” federal contractors, as defined, to provide public disclosure of (1) scope 1, scope 2, and relevant scope 3 greenhouse gas (GHG) emissions; (2) climate-related financial risk factors based on the Task Force on Climate-Related Financial Disclosures (TCFD) framework; and (3) GHG reduction targets established in line with the [Science Based Targets initiative](#) (SBTi). Major contractors without existing targets would be required to establish them. Smaller contractors, defined as “significant,” would be required to provide disclosure of scope 1 and scope 2 GHG emissions.

Proposed rule highlights

With limited exceptions, entities would be subject to the proposed rules based on the volume of federal contracts received in the prior fiscal year. “Major” contractors are those receiving more than \$50 million in federal contracts, while “significant” contractors are those receiving from \$7.5 to \$50 million in federal contracts. These thresholds are based on the size of contracts awarded and not on related revenue in any given year. The rules include limited exceptions for certain entity types, including certain colleges and universities, not-for-profit research entities, and state and local governments.

For impacted major contractors, the requirements would include the following:

- **Annual GHG disclosures:** disclosure of annual GHG scope 1, scope 2, and “relevant scope 3 emissions” as determined under the [GHG Protocol Corporate Accounting and Reporting Standard](#). These metrics would be disclosed publicly via the System for Award Management website ([SAM.gov](#)).
- **Annual climate disclosures:** completion of the CDP (formerly the Climate Disclosure Project) questions that align with the TCFD framework, including the entity’s climate risk assessment process and identified risks. These disclosures would be required to be made available either on a publicly accessible website or via the CDP website.



- **Science-based targets:** development of GHG reduction targets in line with reductions that SBTi deems necessary to meet the goals of the Paris Agreement, namely, to limit global warming to below 2° C above pre-industrial levels. The targets would need to be validated by the SBTi at least every five years and made available on a publicly accessible website. Progress against these published goals would be disclosed as part of the CDP questionnaire.

While the proposal requires a 2° C target, SBTi is no longer validating targets above 1.5° C. Thus, if contractors have not validated a target with SBTi in any of the previous five years, their GHG emissions reductions goals would need to be aligned with a 1.5° C scenario.

Significant contractors would only be required to provide scope 1 and scope 2 GHG emissions, as would a major contractor that is considered a “small business for [its primary] North American Industry Classification System (NAICS) code.”

The above requirements can be satisfied by the contracting entity directly, or by the contracting entity’s inclusion in the disclosures of its immediate owner or ultimate owner (as defined in the proposal), except that the contractor itself must report its GHG emissions.

Why is this important?

The proposed rule has a stated intent of prompting suppliers to take action on measuring and managing GHG emissions reductions via public transparency. Almost 6,000 entities representing approximately 86% of the federal government’s annual spending are expected to be subject to these requirements.

The proposed rule’s requirement to set — not just report if available — science-based targets is notable and echoes some of the requirements of the European Union’s Corporate Sustainability Reporting Directive (CSRD).¹ It also goes one step beyond the Securities and Exchange Commission’s March 2022 climate disclosure proposal, which would require disclosure of targets and goals only if a company has set them.²

What’s next?

Comments on the proposal are due by January 13, 2023. Both major and significant contractors would be required to provide the annual disclosure of scope 1 and scope 2 GHG emissions beginning one year after the publication of a final rule. A major contractor’s annual climate risk and science-based target disclosures, including relevant scope 3 emissions, would be effective two years after the publication date of the final rule.

To have a deeper discussion, contact:

Heather Horn

Partner

Email: heather.horn@pwc.com

Valerie Wieman

Partner

Email: valerie.wieman@pwc.com

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¹ In the loop: [What’s CSRD? It’s important to know](#)

² In the loop: [The SEC wants me to disclose what?](#)