REIT capital markets, legislative outlook and SEC climate disclosures

April 18, 2024, 12:00 p.m.–1:15 p.m. ET

Building a better working world

Welcome

Agenda

01 Real estate market overview

02 Tax and legislative outlook

03 SEC climate ruling

Today's speakers

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Real estate market overview

Learning objectives

1. Understand the impact of current macroeconomics on real estate investors.
2. Understand the divergence in REIT performance of different markets and indices.
3. Understand the current state of the real estate transaction market.

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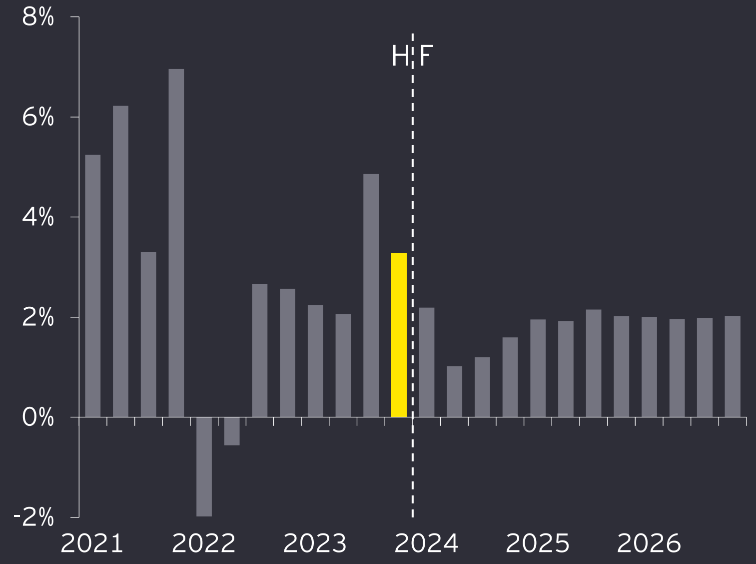
Real estate market overview

Macroeconomic outlook

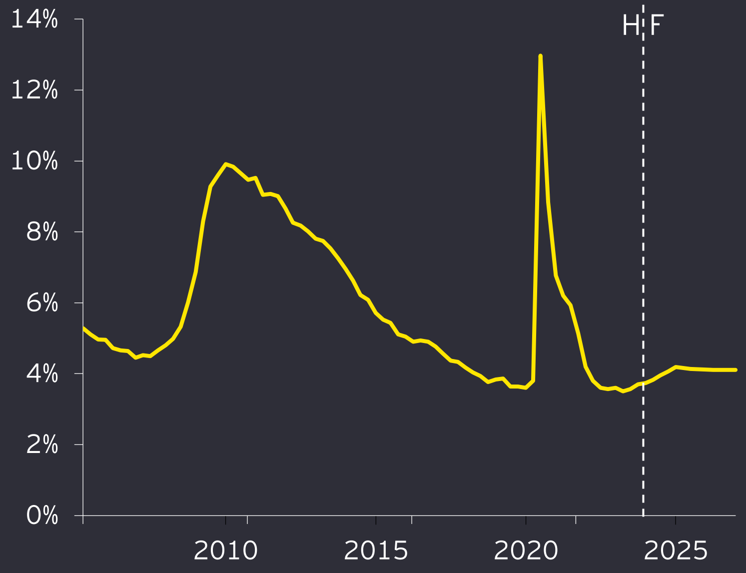
When too much good news is bad news

US real GDP growth (quarter over quarter annualized rate)
2021–26F



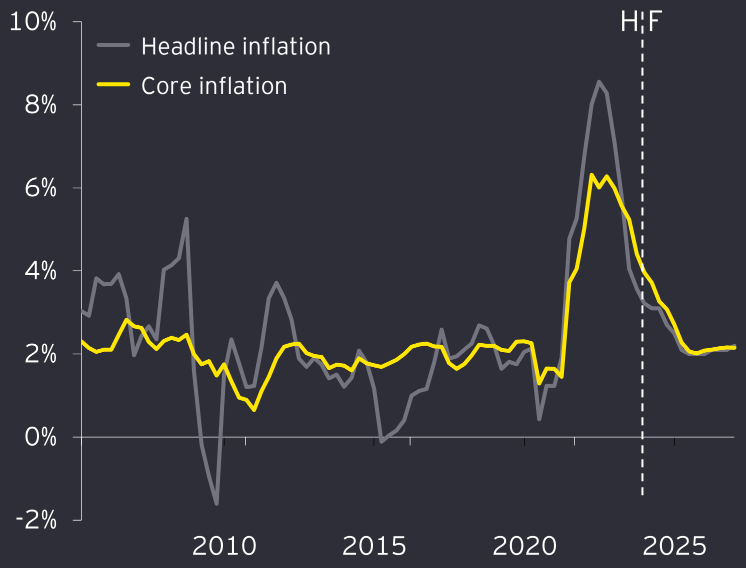
GDP growth
2024F: 2.3%
2025F: 1.7%
2026F: 2.0%

US unemployment rate
2005–26F



Unemployment rate
Q4 2024F: 4.2%
Q4 2025F: 4.1%
Q4 2026F: 4.1%

US y/y percentage change in CPI
2005–26F



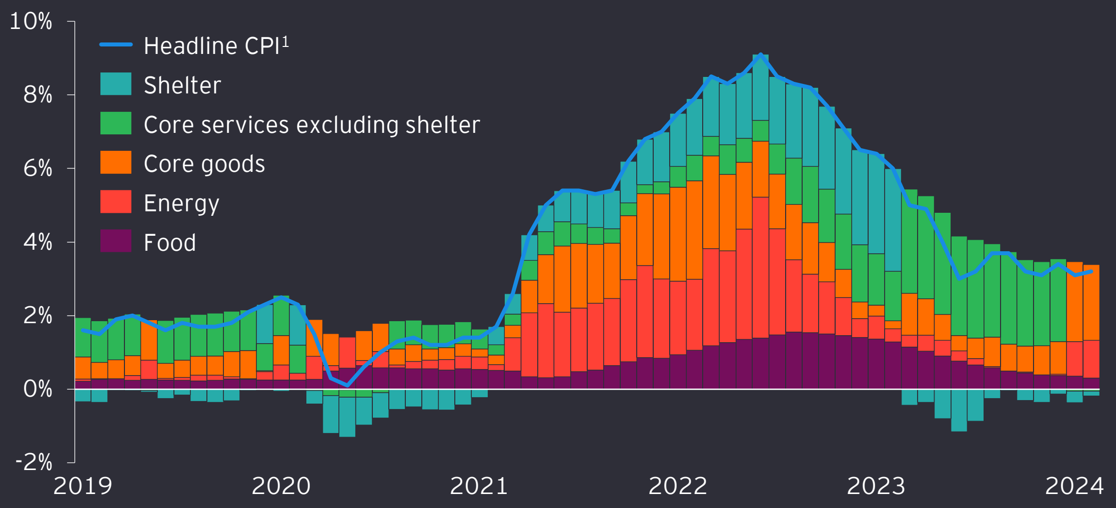
Core CPI inflation (y/y)
Q4 2024F: 2.7%
Q4 2025F: 2.1%
Q4 2026F: 2.1%

Risks tilted to the downside: financial market stress and geopolitical tensions

Source: EY-Parthenon

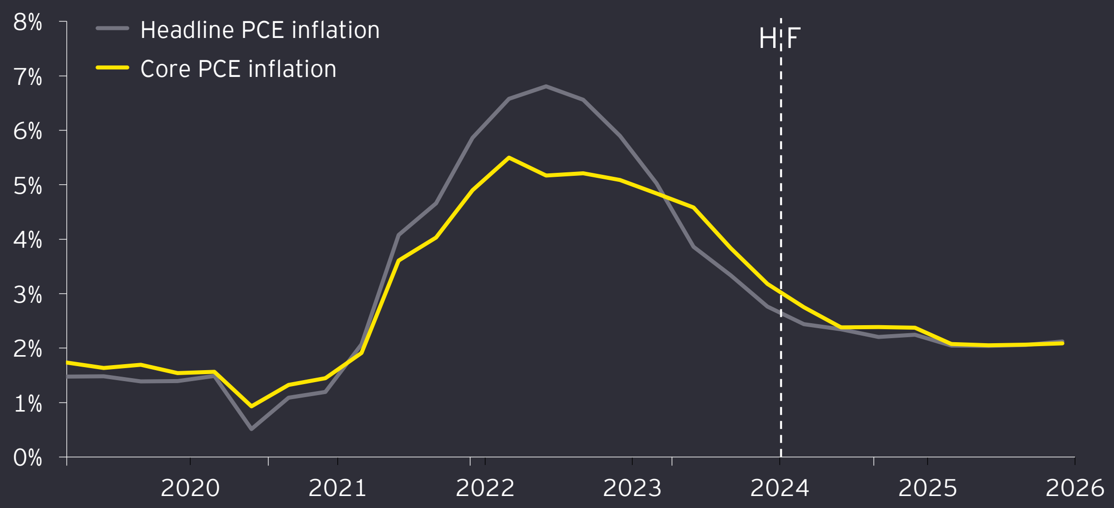
A closer look at inflation suggests there may be noise in the data

US y/y percentage change in headline CPI, contribution by category
January 2019–February 2024



- Headline CPI rose 0.4% m/m in March, 0.1% higher than consensus expectations, following a 0.4% increase in February and a 0.3% increase in January. Core CPI rose 0.4% m/m for a third straight month in March, a stronger-than-expected outcome that points to some lingering stickiness at the core level. As a result, headline CPI inflation ticked up to 3.5% y/y rather than an expected 3.4%, while core CPI inflation remained stable at 3.8% y/y — its lowest since April 2021.
- Core goods prices fell 0.2% after a surprise increase of 0.1% in February, which ended a string of eight consecutive monthly declines as core services prices increased at a 0.5% clip, with shelter costs and auto insurance driving the increase. Shelter costs, which represent the largest component of services inflation, increased 0.4% m/m but a 5.7% y/y increase.
- Movement in shelter costs typically lag compared to other inputs other data due to real estate lifecycles anywhere from 6 to 12 months.

US y/y percentage change in PCE deflators
2019–25F



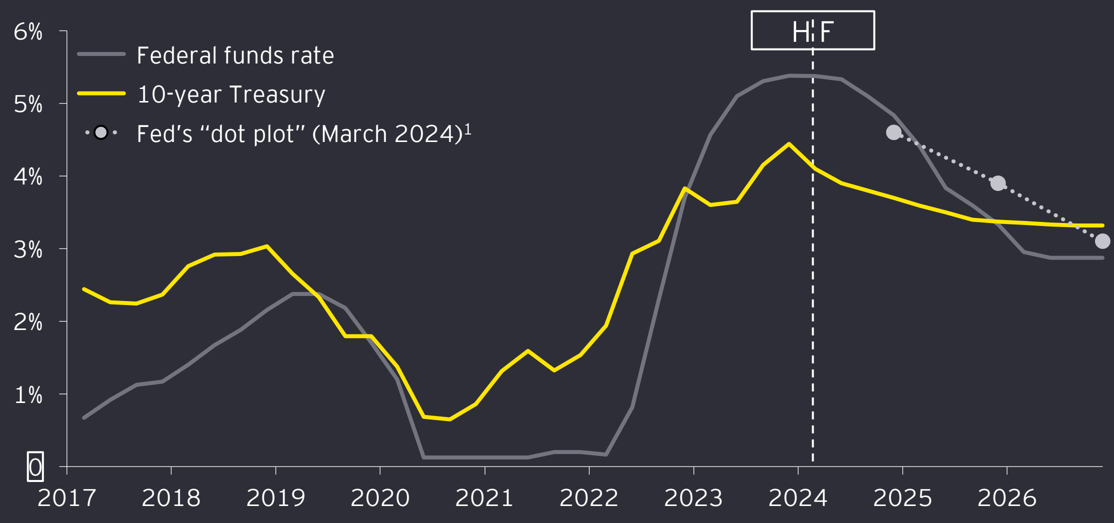
- As we look ahead, there is no doubt that the disinflationary process will remain bumpy, and there will be monthly readings that surprise to the upside. Insurance cost inflation, rising home prices and geopolitical risks are certainly worth monitoring carefully. But slower consumer demand growth, increasing price sensitivity, declining rent inflation, narrower profit margins, moderating wage growth and tight monetary policy form the ideal combo for further disinflationary momentum in 2024.
- We see headline and core CPI inflation ending the year around 2.5% and 2.7% y/y in Q4 2024, respectively. The Fed's favored inflation gauge, the deflator for personal consumption expenditures, should end the year around 2.2% y/y.

1. Headline CPI includes the prices on a fixed basket of goods. Core CPI removes the CPI components that can exhibit large amounts of volatility from month to month, such as food and energy.

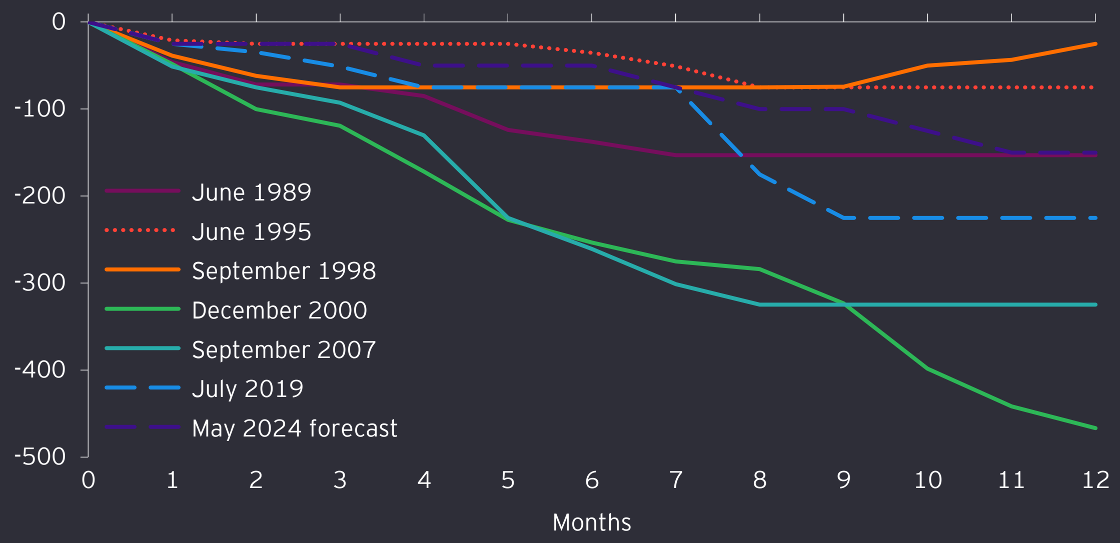
Source: Bureau of Labor Statistics; EY-Parthenon

We are still forecasting 75bps of rate cuts beginning in June 2024

US interest rate forecasts, federal funds rate and 10-year Treasury yield
Q1 2017–Q4 2026F



US federal funds rate across loosening cycles: basis points change



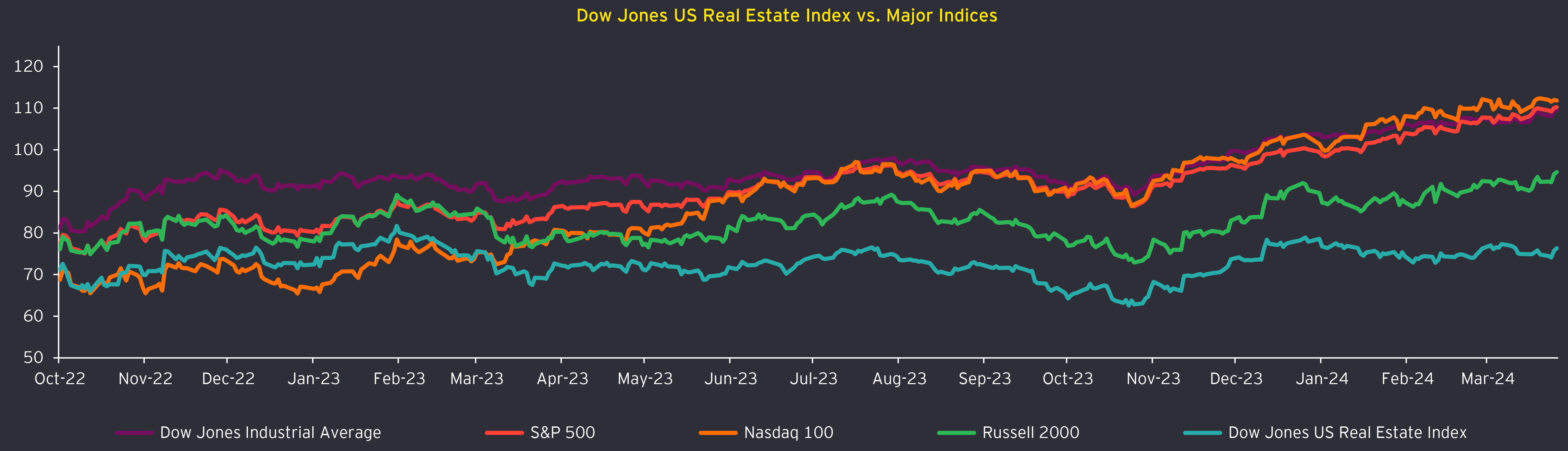
- The Federal Open Market Committee voted unanimously to hold the federal funds rate at 5.25%-5.50% at its March meeting. There were almost no changes to the FOMC statement, and the sentence noting "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent" was preserved.
- The median interest rate estimate continued to indicate rate cuts of 75 basis points (bps) in 2024 with the fed funds rate at 4.63% in Q4 2024. The Q4 2025 median projection was revised up by 25bps to 3.9% indicating 75bps of rate cuts next year.
- The new projections also showed a significant upgrade to GDP growth projections without a commensurate upgrade to inflation and employment, illustrating Fed officials' belief that non-inflationary growth can be sustained via stronger labor supply and productivity growth.
- During the press conference, the Fed Chair reiterated the now-familiar message that the policy rate is likely at its peak and that it would likely be appropriate to start easing policy "at some point this year." He acknowledged the notable easing of inflation over the past year and noted that the stronger-than-expected inflation readings in January and February were more noise than signal. On the recent easing of financial conditions, Powell noted that the FOMC believes financial conditions are weighing on economic activity and that it is the most important factor.
- Overall, we continue to expect the onset of the Fed easing cycle in June and believe the Fed is more likely to proceed with three rate cuts in 2024, rather than four as we had previously anticipated.

1. "Dot plot" charts the median interest rate projection from the FOMC. The projections for the federal funds rate are the values at the end of the specified calendar year.

Source: Federal Reserve Board; EY-Parthenon

Public markets performance

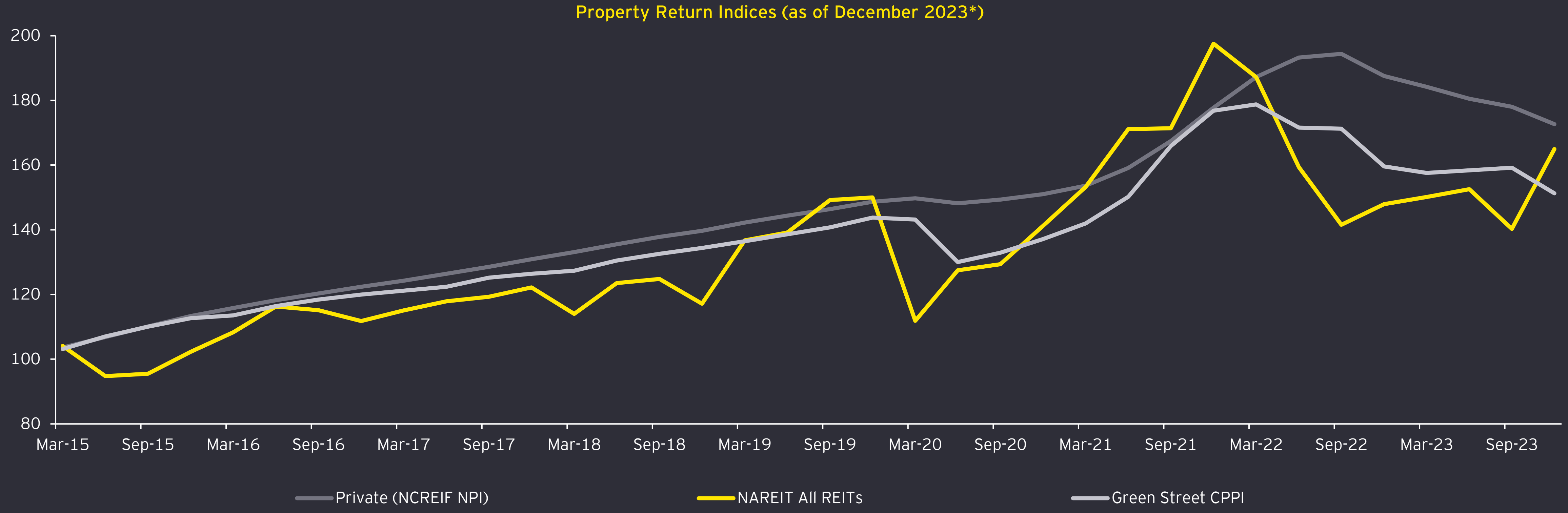
Is REIT underperformance an opportunity right now?



- Historically, publicly traded REIT returns have traded generally in-line with major indices but as of late, have been restrained by the condition of capital markets over the past 18 months
- Major indices have continued to rise over the same period attributable to promising economic prospects such as declining inflation and a relatively strong consumer (e.g.,: spending, confidence) while REIT returns plateaued
- In 2Q 2023, the Dow Jones US Real Estate Index began to deviate from broader market indices in correlation with what became regular increases of the Federal Funds Rate by the Federal Reserve
- Over the past six months, the Dow Jones US Real Estate index has begun to show signs of returning to performance correlated with, or even outperformance of major indices – this may suggest that public real estate markets are turning a corner and adapting to prospects of a higher interest rate environment and potential cuts in the Federal Funds Rate
- The Dow Jones US Real Estate Index outperformed the S&P 500 in 4Q 2023 by 6.2%, with many sectors such as regionals malls 22.6%, as well as office and self-storage outperforming by 10.7% and 10.9%

Source: S&P Global Intelligence; S&P Capital Intelligence

Public and private valuation convergence is in sight

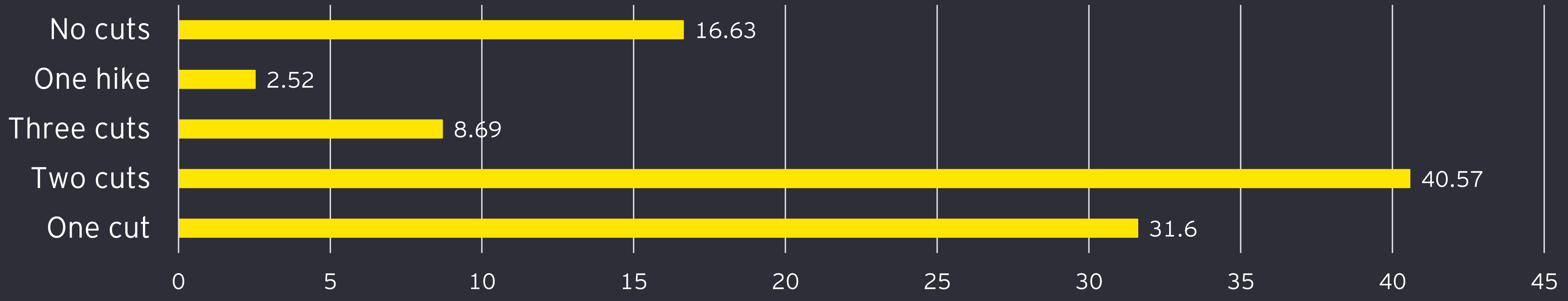


- The gap that has existed between public REIT returns and private RETI returns continue to narrow, following a notable divergence in 2H 2022.
- Green Street points to a further 15% decline required in privately appraised values to revert to a historical relationship with Green Street's CPPI, as observed prior to 2H 2022.
- REITs trading at or above NAV have an advantage in the market

Note: All indices have been adjusted with December 2014 taken as base year for comparative purposes; not all data sets available through Q1 2024
Source: Green Street, NCREIF, FTSE NAREIT

Polling question #1

Given the recent inflation news, how many times do you expect the Federal Reserve to move interest rates the rest of the year?



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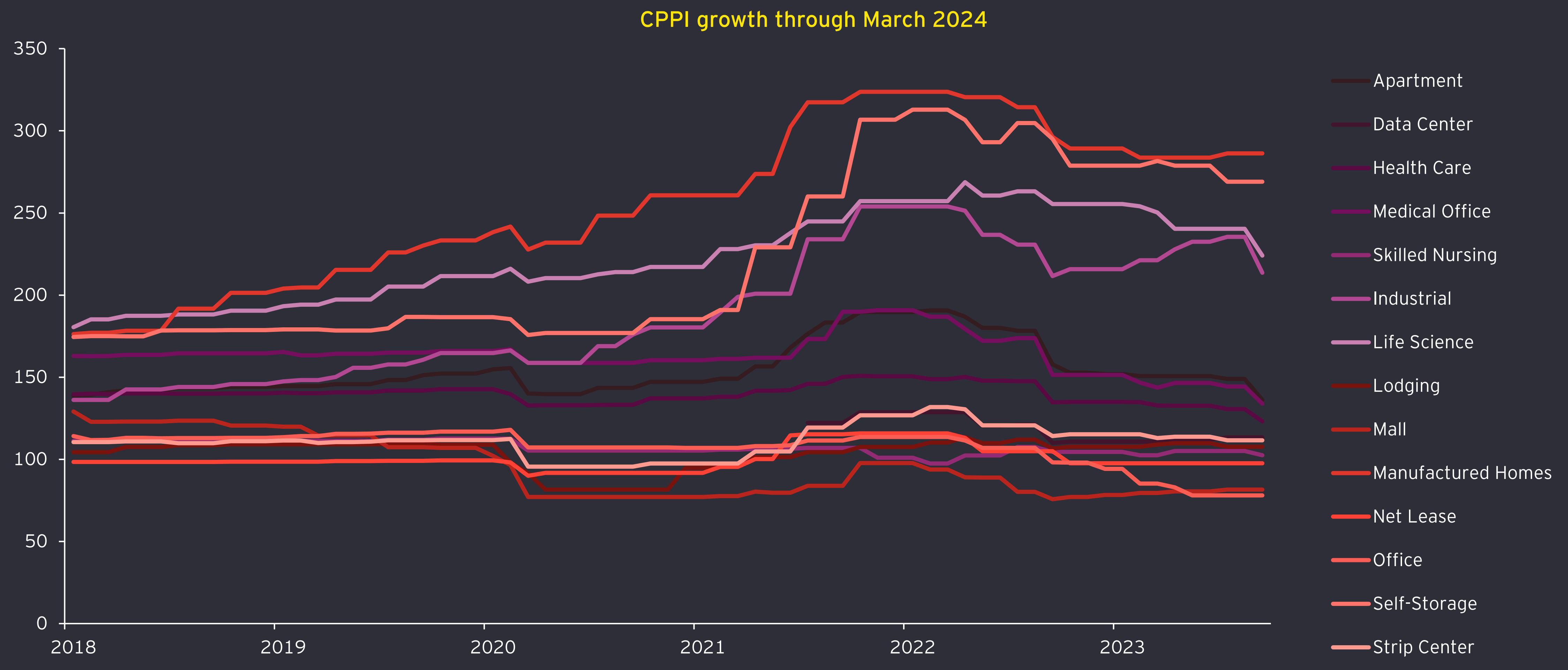
Real estate market overview

Current landscape

Property values

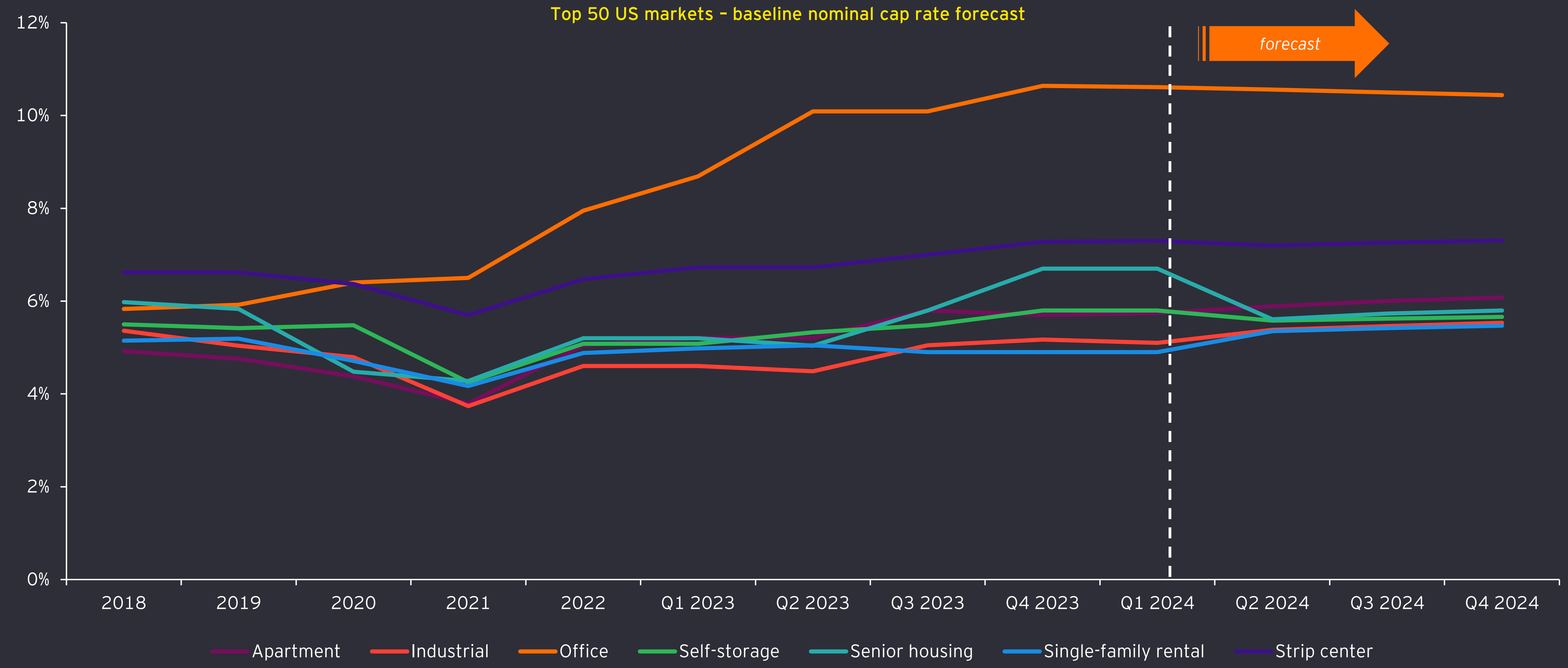
Not all property types have tracked with broad REIT trends



Source: Green Street CPPI, March 2024.

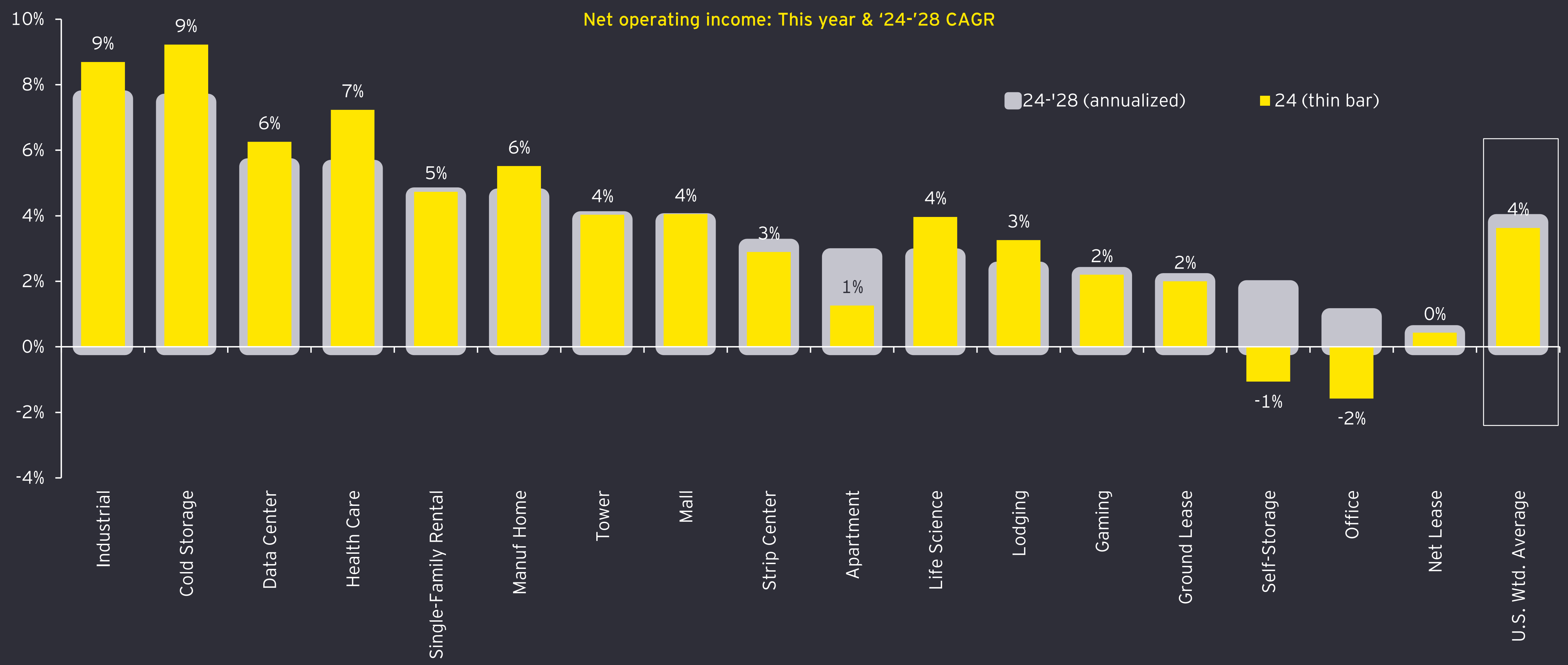
Property values

Capitalization rates are one piece of the story



Source: Market Forecasts data, Green Street, March 2024

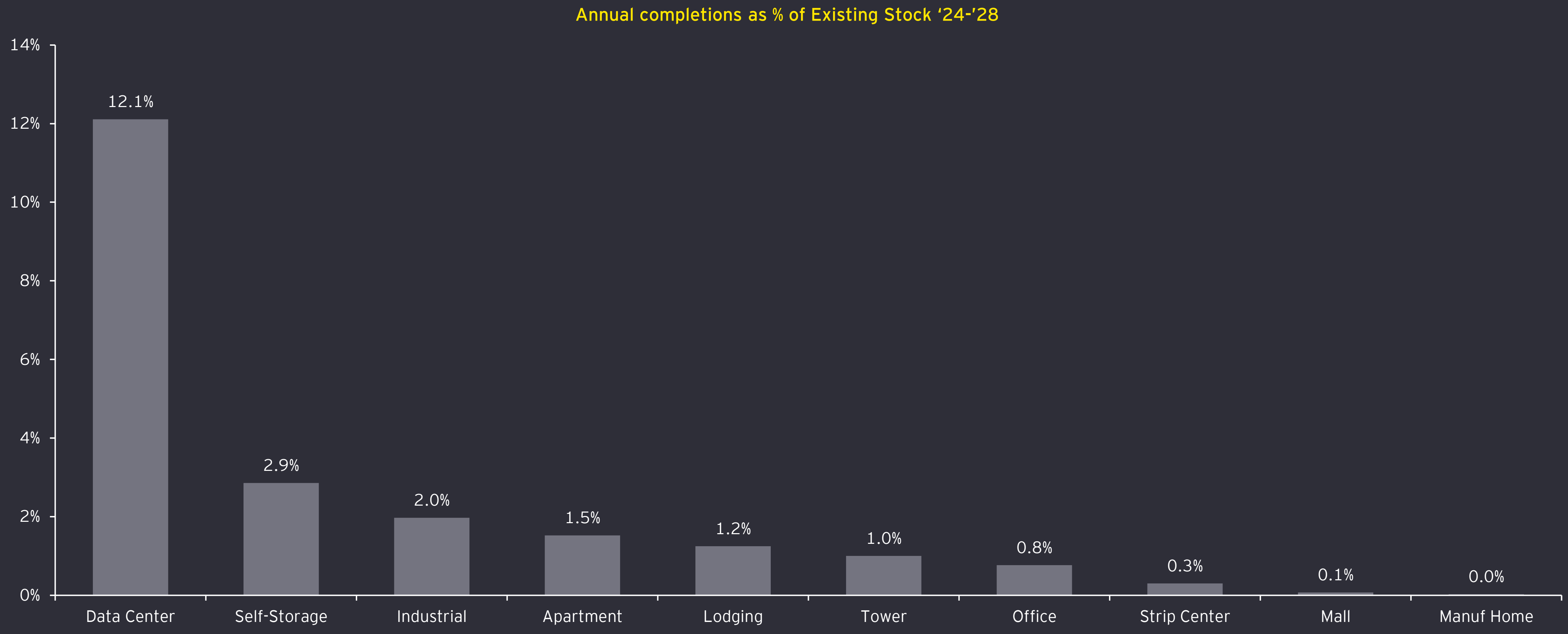
But you can't argue with fundamentals



Source: Green Street

Property values

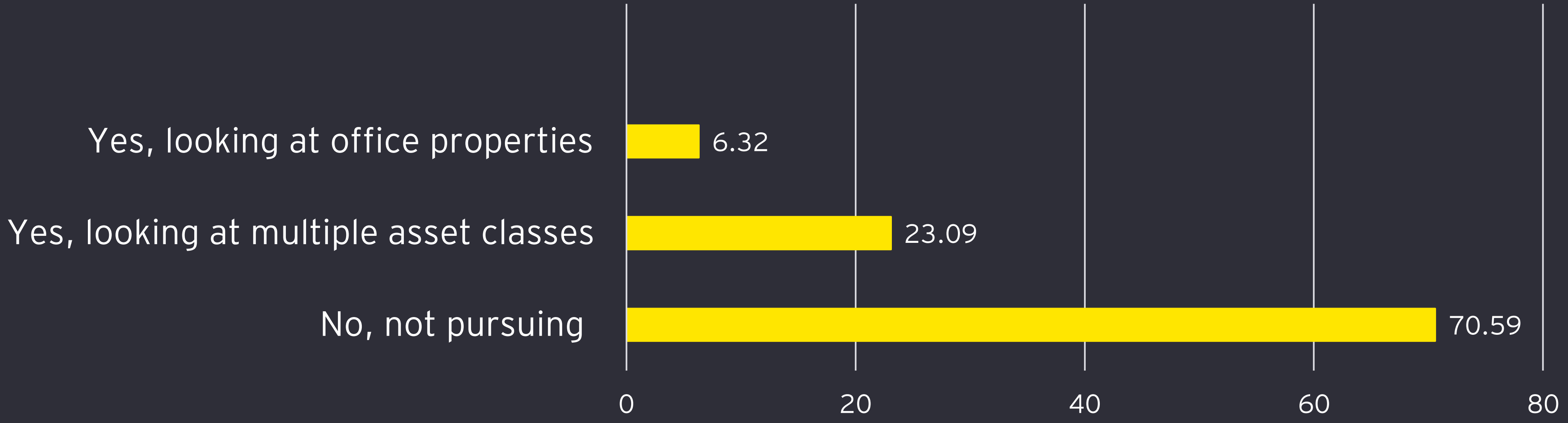
And supply growth is expected to remain constrained



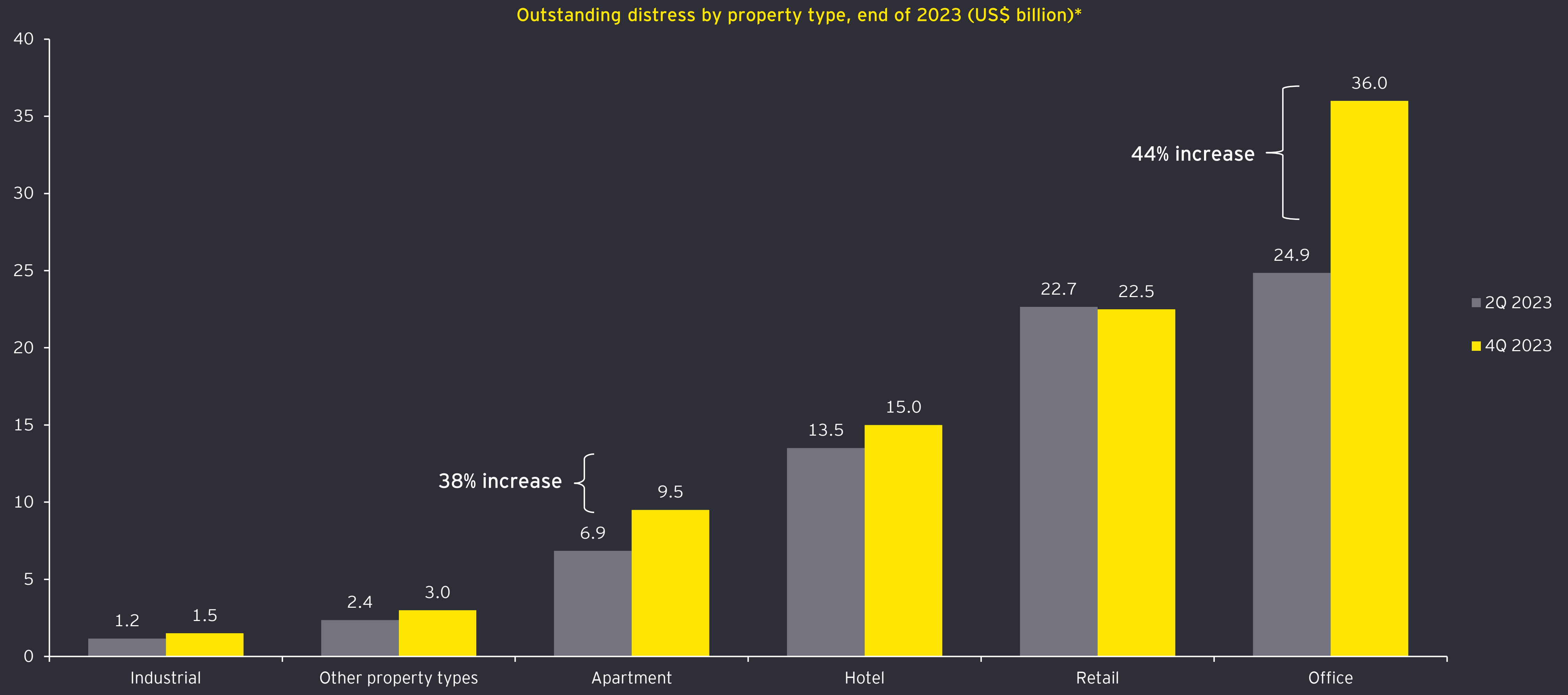
Source: Green Street

Polling question #2

Are you pursuing distressed real estate opportunities?



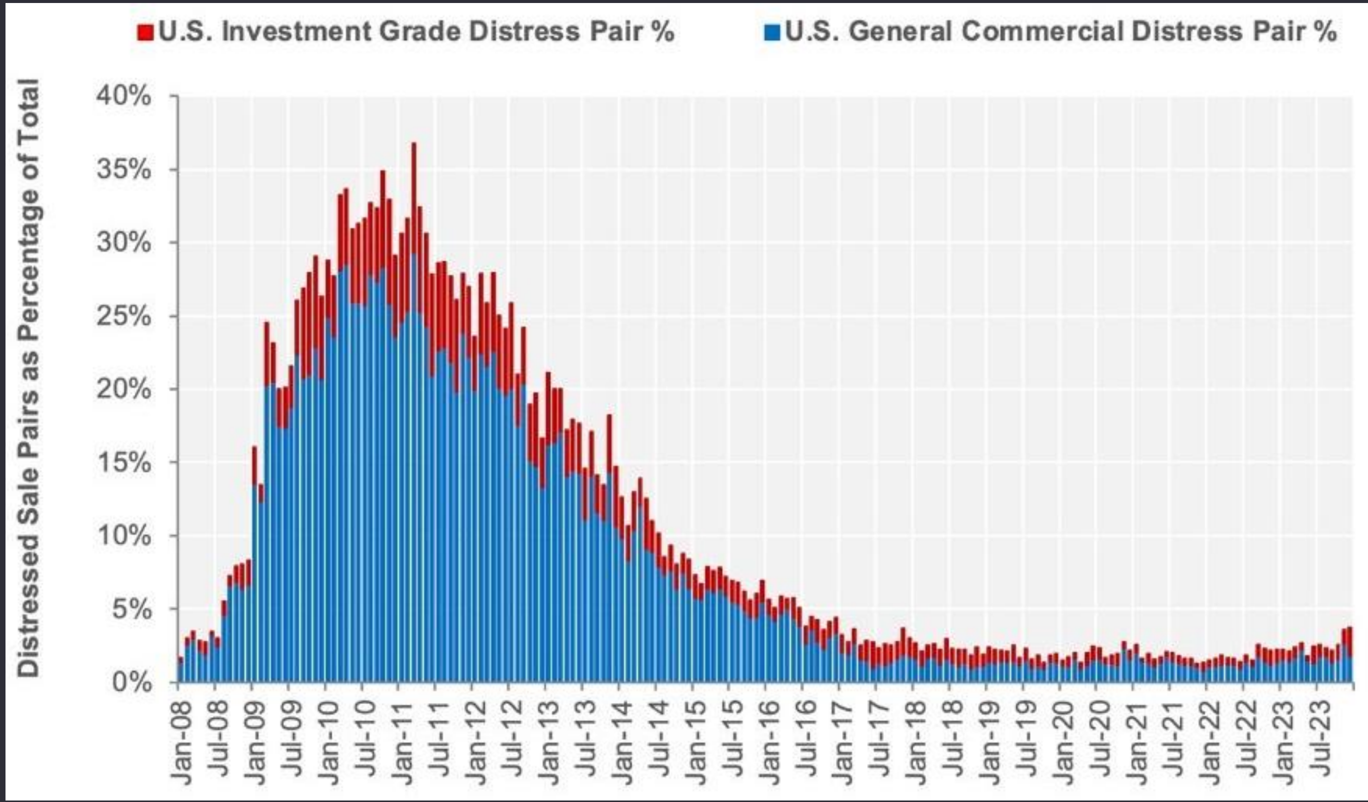
Distress is still a concern, particularly for office, retail and apartment



Source: MSCI Capital Trends US Distress Tracker Q2 2023

Distressed sale pairs are increasing, but not at an alarming pace

United States Distressed Sale Pairs Percentage (December 2023)

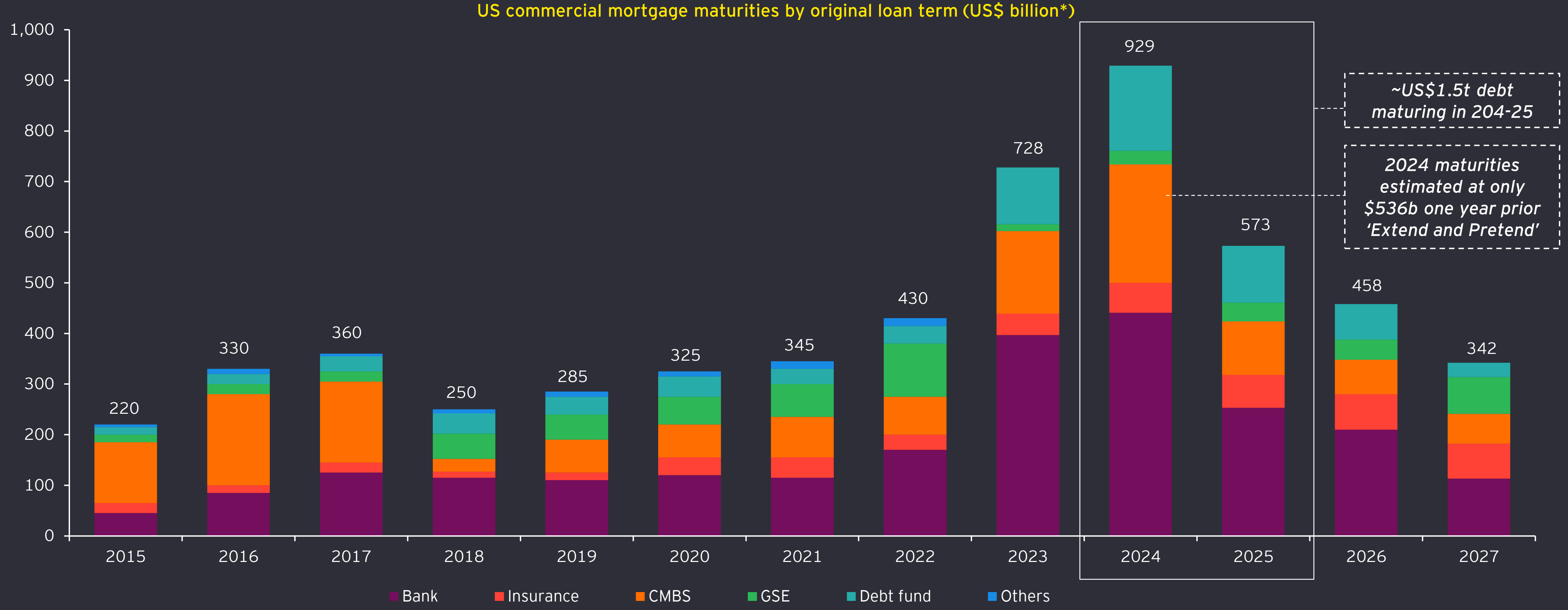


- Distressed repeat sales of assets moved higher in 2023. Specifically, 3.7% of all sales were considered to be distressed.
- In December 2023, the total repeat sales of 3.7% was the highest percentage share of total repeat sales for any month since November 2017.
- Overall, we continue to expect the onset of additional distress opportunities that will drive transaction volume.

Source: CoStar Group

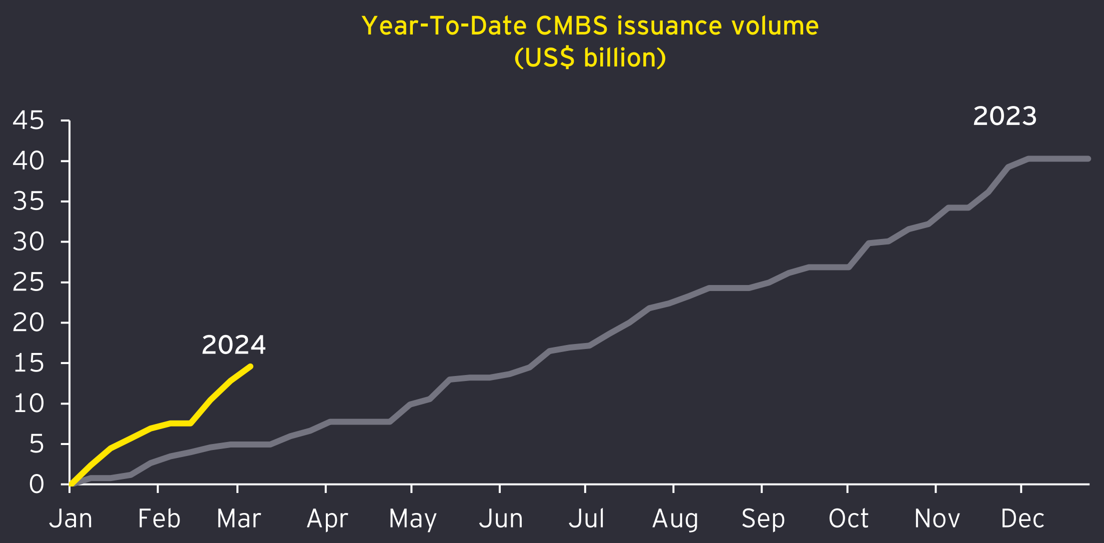
‘Extend and pretend’ persists as lenders wait for lower interest rates

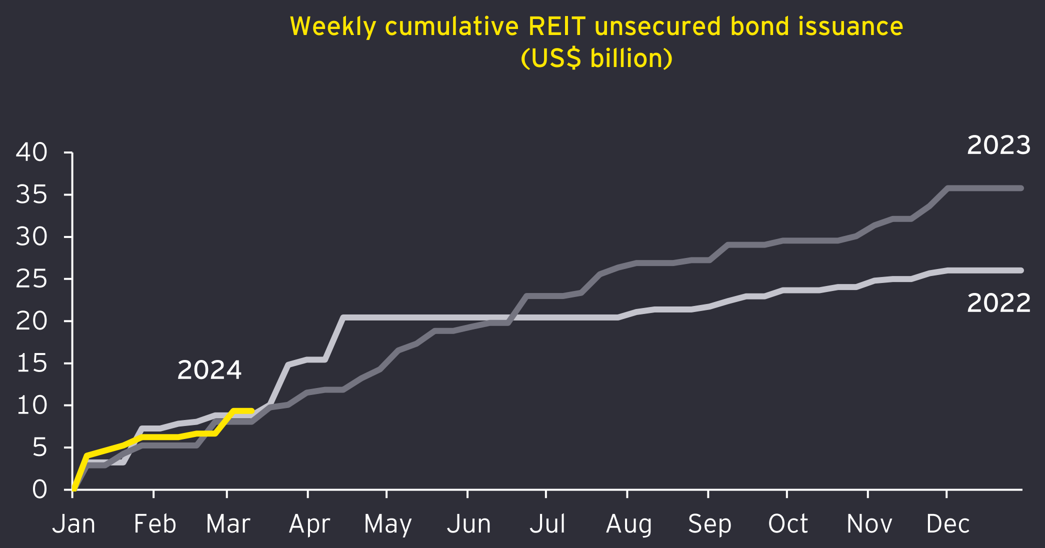
Banks, CMBS and debt fund maturities are particularly heavily front-loaded over the next 12 months

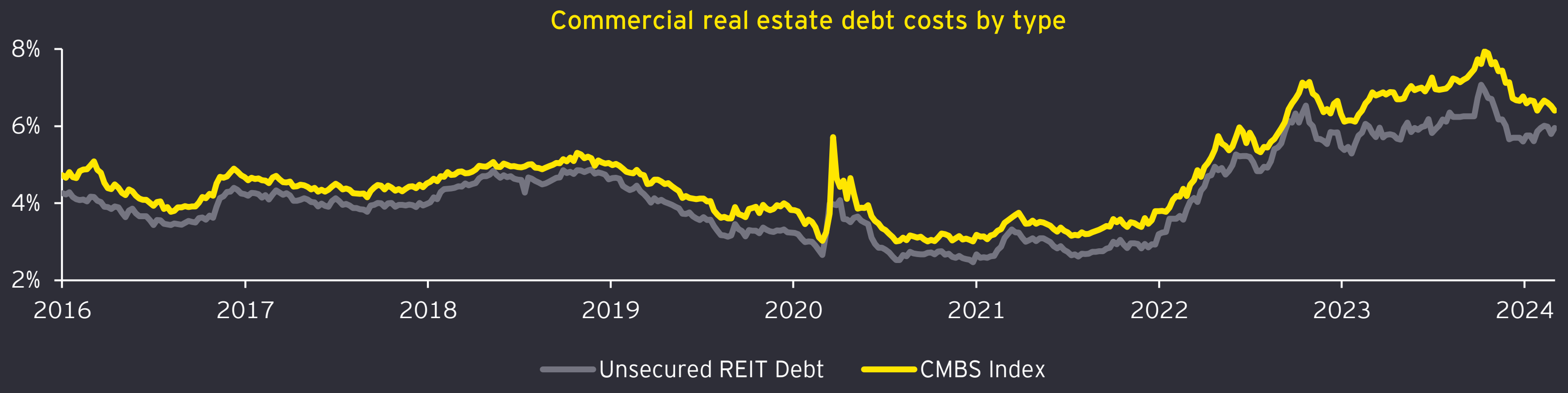


Note: Assumes that loans for which the maturity date is unknown have the same maturity distribution as loans with known maturities.
* Graph reflects approximate values across categories based on Newmark research report and may slightly differ from exact numbers
Source: RCA, Newmark Research

CMBS markets are showing signs of recovery even with bank lending challenges





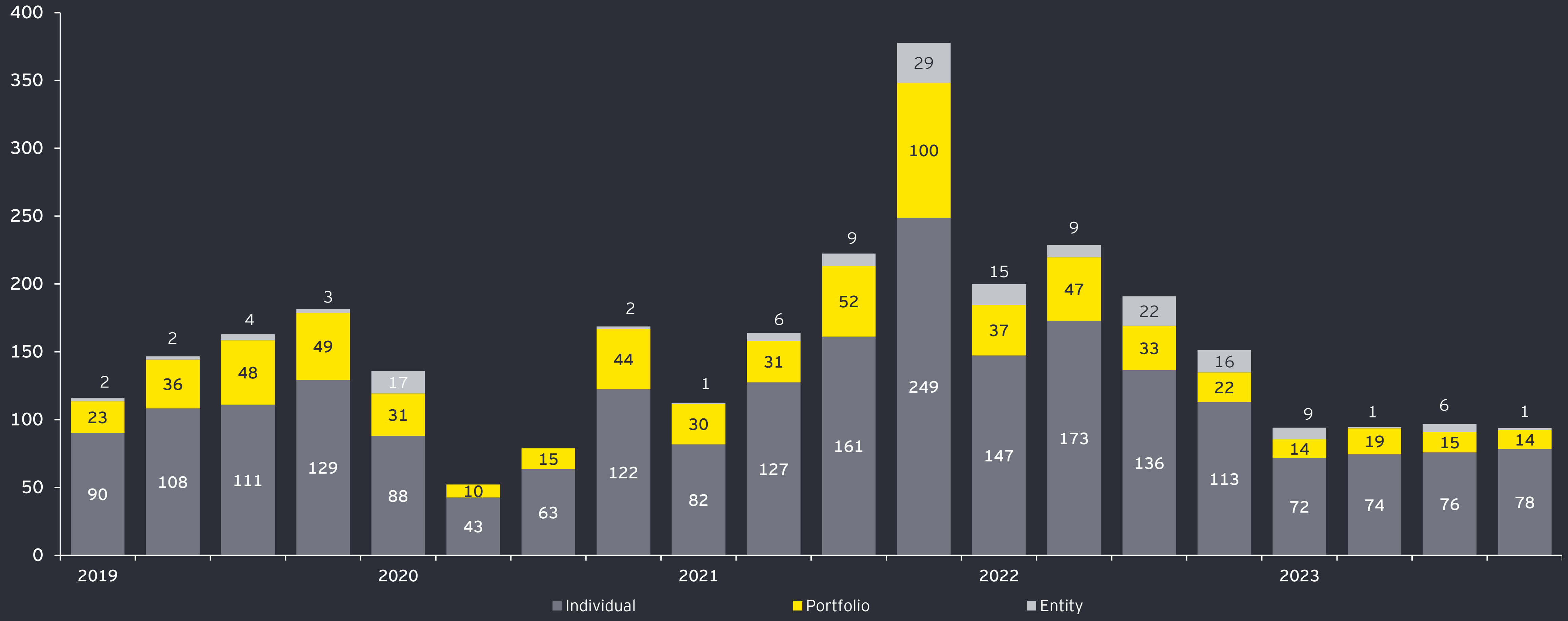


Average spread	
2019	0.48%
2020	0.50%
2021	0.51%
2022	0.58%
2023	0.96%
2024	0.75%

Source: Green Street as of 08/03/2024

We predict a slow thawing of the transaction market in 2024

Commercial real estate transaction volume by quarter from 2019 through 2023 (US$ billion)



Source: *Real Capital Analytics*, October 2023.

Real estate recap

- While counterintuitive, we need some bad news to empower the Federal Reserve to lower the federal funds rate.
- We need to acknowledge and get comfortable with the idea that rates may not come down as much as we initially though heading into 2024.
- Mergers and acquisitions are picking up, regardless of the rate environment, as capital needs to be deployed for shareholders.
- Investor interest may be pivoting to previously overlooked property types such as retail, which price-corrected years ago and has seen improving fundamentals.
- Bid/ask spreads are narrowing and those who want to make a deal, can.

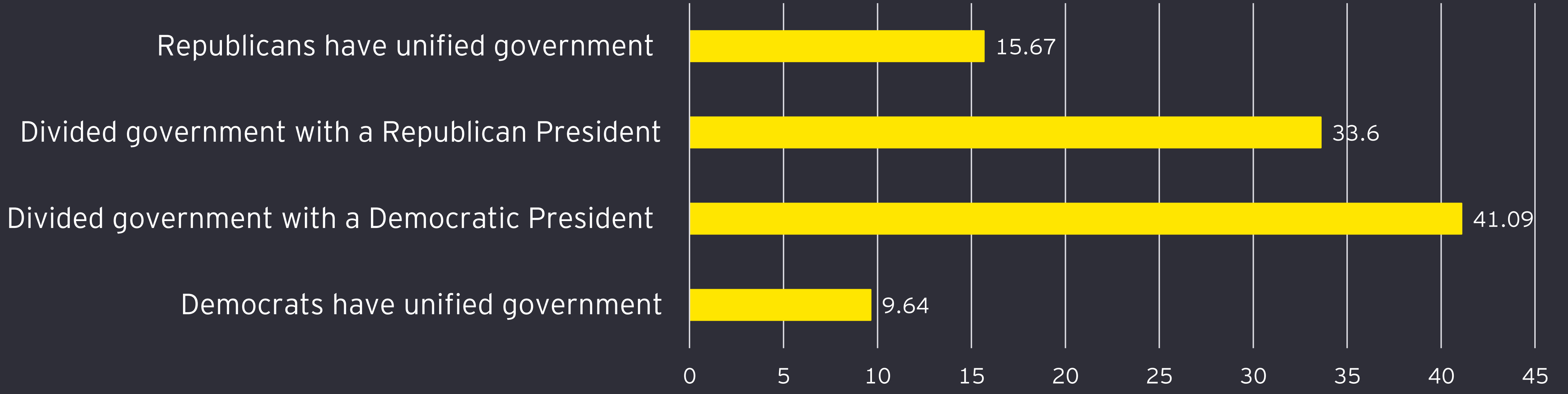
Tax and legislative outlook

Learning objectives

1. Estimate the political climate ahead of the 2024 general election and the potential impact on near-term tax legislation.
2. Identify the major business and individual tax policies that could be considered as part of tax legislation in 2025 and beyond.
3. Inventory the areas of risk and opportunity for tax policy impacting the real estate sector in 2025 and beyond.

Polling question #3

With a little over six months until the 2024 general election, which political scenario do you think is most likely:



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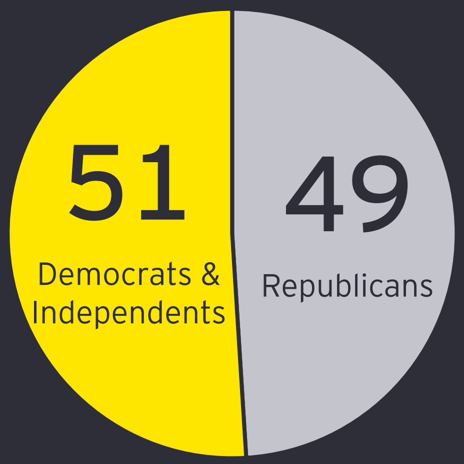
Senate

- 20 Democrats + 3 Independents up for re-election
  - 3 in states won by Trump: Ohio, West Virginia, Montana
  - 5 in states Biden won by less than 3%: Wisconsin, Nevada, Arizona, Pennsylvania, Michigan

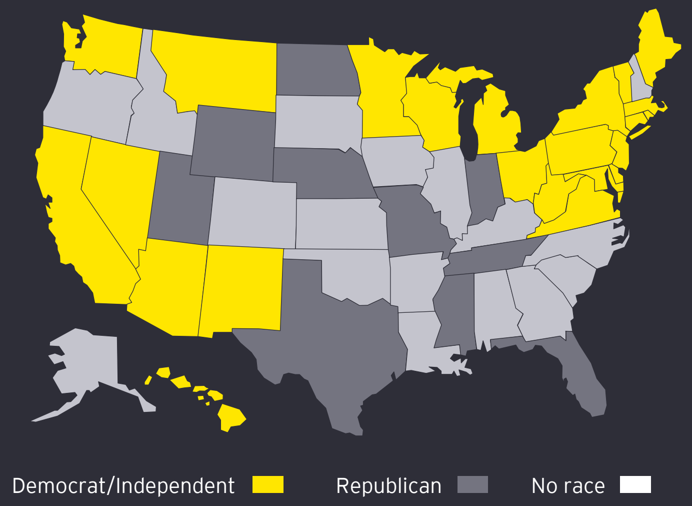
- 11 Republicans up for re-election

Retirements
- Ben Cardin (D-MD)
- Tom Carper (D-DE)
- Joe Manchin (D-WV)
- Debbie Stabenow (D-MI)
- Mitt Romney (R-UT)
- Mike Braun (R-IN), running for governor

Currently:



2024 seats in cycle:



Up for re-election in 2024
- Tammy Baldwin (D-WI)
- Sherrod Brown (D-OH)
- Laphonza Butler (D-CA)
- Maria Cantwell (D-WA)
- Bob Casey (D-PA)
- Kirsten Gillibrand (D-NY)
- Martin Heinrich (D-NM)
- Mazie Hirono (D-HI)
- Tim Kaine (D-VA)
- Amy Klobuchar (D-MN)
- Bob Menendez (D-NJ)
- Chris Murphy (D-CT)
- Jacky Rosen (D-NV)
- Jon Tester (D-MT)
- Elizabeth Warren (D-MA)
- Sheldon Whitehouse (D-RI)
- John Barrasso (R-WY)
- Marsha Blackburn (R-TN)
- Kevin Cramer (R-ND)
- Ted Cruz (R-TX)
- Deb Fischer (R-NE)
- Josh Hawley (R-MO)
- Rick Scott (R-FL)
- Roger Wicker (R-MS)
- Angus King (I-ME)
- Bernie Sanders (I-VT)
- Kyrsten Sinema (I-AZ)

House

219
Republicans
2 vacancies – McCarthy (CA), Johnson (OH)

213
Democrats
1 vacancy: Higgins (NY)

18 Republicans in districts Biden won in 2020

5 Democrats in Trump districts

- With victory of Rep. Tom Suozzi (D-NY) Feb. 13, Republicans can lose only 2 votes and pass a party-line bill 217-215
- Special election to replace Kevin McCarthy (R-CA) is May 21

Retirements
- Ken Buck (R-CO)
- Larry Bucshon (R-IN)
- Michael Burgess (R-TX)
- Jeff Duncan (R-SC)
- Mike Gallagher (R-WI)
- Kay Granger (R-TX)
- Mark Green (R-TN)
- Debbie Lesko (R-AZ)
- Blaine Luetkemeyer (R-MO)
- Patrick McHenry (R-NC)
- Cathy McMorris Rodgers (R-WA)
- Greg Pence (R-IN)
- Victoria Spartz (R-IN)
- Brad Wenstrup (R-OH)
- Earl Blumenauer (D-OR)
- Tony Cárdenas (D-CA)
- Anna Eshoo (D-CA)
- Dan Kildee (D-MI)
- Derek Kilmer (D-WA)
- Kathy Manning (D-NC)
- Grace Napolitano (D-CA)
- Wiley Nickel (D-NC)
- Dutch Ruppersberger (D-MD)
- John Sarbanes (D-MD)
- Jennifer Wexton (D-VA)
- 17 other members running for other office

	Republican member in Biden district	Biden 2020 victory margin	2022 GOP member margin
OR-5	Lori C. DeRemer	+8.9	+2.4
CA-27	Mike Garcia	+12.4	+8.4
CA-40	Young Kim	+1.9	+14.4
CA-45	Michelle Steel	+6.2	+6.4
CA-13	John Duarte	+10.9	+.4
CA-22	David Valadao	+13	+3.4
AZ-1	Dave Schweikert	+1.5	+.8
AZ-6	Juan Ciscomani	+.1	+1.4
NE-2	Don Bacon	+6.3	+3
NY-17	Mike Lawler	+10.1	+.8
NY-4	Anthony D'Esposito	+14.5	+3.8
NY-3	George Santos	+8.2	+8.2
NY-1	Nick LaLota	+.2	+11.8
NY-22	Brandon Williams	+7.5	+1
NY-19	Marc Molinaro	+4.6	+2.2
NJ-7	Tom Kean	+3.9	+3.6
PA-1	Brian Fitzpatrick	+4.6	+10
VA-2	Jen Kiggans	+1.9	+3.4

Dist.	Democratic member in Trump district	Trump 2020 victory margin	2022 Democrat margin
AK-AL	Mary Peltola	+10.1	+9.8
ME-2	Jared Golden	+6.1	+6.2
OH-9	Marcy Kaptur	+2.9	+13
PA-8	Matt Cartwright	+2.9	+2.4
WA-3	Marie G. Perez	+4.2	+.8

Key dates

- **January 31:** House passed Tax Relief for American Families and Workers Act
- **April 19:** Deadline for reauthorizing FISA
- **April 22:** Next House, Senate recess week
- **May 10:** FAA authorization/taxes expiration
- **July 15:** Republican national convention
- **August 19:** Democratic national convention
- **September 30:** End of fiscal year, government funding and farm bill expire
- **November 5:** Election Day

Tax Relief for American Families and Workers Act of 2024

Approved by House 357-70 January 31

Business provisions

- Retroactive to 2022 and extended through 2025
  - Restoring Section 174 R&D expensing (as opposed to 5-year amortization)
    - For domestic R&D only, not foreign R&D
  - Prior parameters for Section 163(j) interest deductibility
- Extension of 100% expensing

Child Tax Credit

- Gradually increase refundable CTC amount from $1,600 to $2,000
  - $1,800 in 2023
  - $1,900 in 2024
  - $2,000 in 2025
- Calculation of the refundable credit on a per-child basis
- Use of earned income from the prior taxable year to calculate the maximum child tax credit

Revenue offset

- Crackdown on Employee Retention Tax Credit (ERTC)
  - Increased penalties
  - Enhanced disclosure requirements
  - Barring additional claims after January 31, 2024

Additional provisions

- United States-Taiwan Expedited Double-Tax Relief Act (H.R. 5988)
- Housing tax provisions
  - Restore LIHTC 12.5% increase for 2023-2025
  - Tax-exempt bond financing requirement transition rule
- Disaster relief
  - Casualty loss relief for disaster areas declared since 2020

Outlook:

Senate Democratic leaders, Ways and Means Chairman Smith view path as appropriations add-on

Main Republican issues with bill:

Senator Tillis: Employee Retention Credit (ERC) crackdown as revenue offset

Senators Blackburn, Rubio: prior-year earnings shouldn't be used to qualify for the Child Tax Credit

Senator Grassley: concerns over aiding Democrats politically in an election year

Expiration/change dates of TCJA provisions

Provision	2021	2022	2023	2024	2025	2026	Revenue	
TCJA "pre-cliffs"							Through 2025[1]	2024-2033[2]
Interest deduction based on EBITDA		EBIT					-$18.8b	
R&D expensing		Five-year amortization (15-year for foreign R&D)					-$8.5b	
100% expensing			Phased down in 20% increments				-$3.05b	-$325b
TCJA international provisions								
GILTI deduction at 50%						37.5% deduction		-$111b
FDII deduction at 37.5%						21.875% deduction		
BEAT rate: 10% (11% for banks/dealers)						12.5%/13.5% rate		-$14b
TCJA individual provisions								
Income tax rates 10%, 12%, 22%, 24%, 32%, 35%, 37%						10%, 15%, 25%, 28%, 33%, 35%, 39.6%		-$1.8t
Standard deduction $12,000/single, $24,000/married						$6,350/single, $12,700/married		-$1t
AMT exemption $126,500/married, $81,300 single						$84,500/married, $54,300/single		-$1t
Child tax credit: $2,000, refundable to $1,400						$1,000, $1,000 refundability		-$592b
20% pass-through deduction						No deduction		-$548b
Higher Estate (currently $12,920,000) and Gift Tax Exemptions						$5.49m (pre-2018 $5m inflation adjusted)		-$126b

In effect

Not in effect

1 Joint Committee on Taxation (JCT), JCX-3-24, Estimated Revenue Effects of H.R. 7024, The Tax Relief For American Families and Workers Act of 2024, January 2024

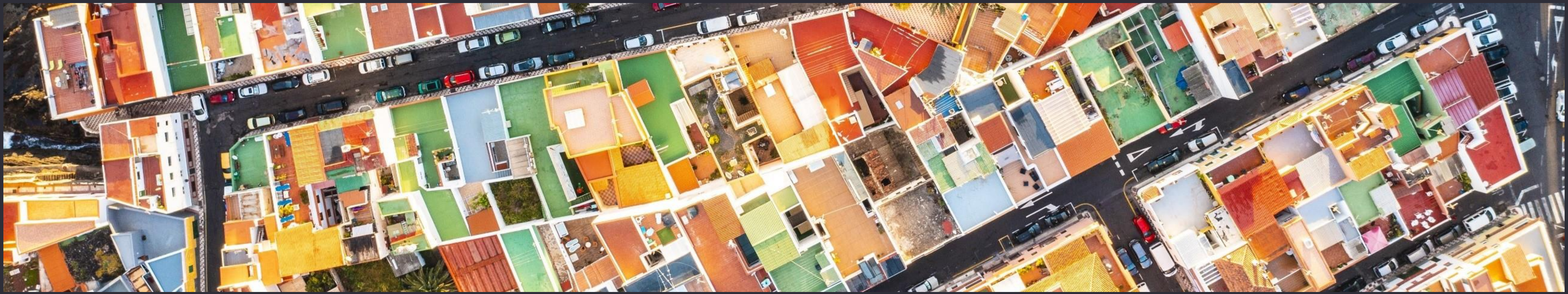
2 Congressional Budget Office (CBO), Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues, Supplemental Data, May 2023

President Biden's FY2025 'Green Book' tax proposals

Provision	Description	10-year Revenue
Corporate tax rate	Increase to 28%	$1.35t
NIIT	▸ Application of net investment income tax (NIIT) to high-income earnings for pass-through income ▸ increase NIIT and Medicare tax rates by 1.2 percentage points, to 5%	$800b
Top individual rate	Increase to 39.6% for high earners	$246b
Carried interest	Tax as ordinary income	$6.5b

President Biden's FY2025 'Green Book' proposals impacting real estate

Provision	Description	10-year Revenue
Reform the taxation of capital income	▸ Long-term cap gains taxed at ordinary rates for taxpayers with taxable income in excess of $1m ▸ Eliminate carryover basis; treat transfers of appreciated property by gift or death as realization events excluding $5 m per-donor of gifts transferred during life, an election for family-owned and operated businesses until the business is sold, and other exclusions; would allow a 15-year fixed-rate payment schedule to pay the tax.	$288b
Billionaires' tax	25% tax on total income, including unrealized capital gains, for taxpayers with wealth exceeding $100m	$502b
Like-kind exchanges	Repeal deferral of gain on 1031 Like-Kind Exchanges on real property exchanges with gain over $1m (married filers) each year	$19.6b
Recapture of depreciation deductions	Recapture of depreciation deductions as ordinary income for certain depreciable real property	$7.2b



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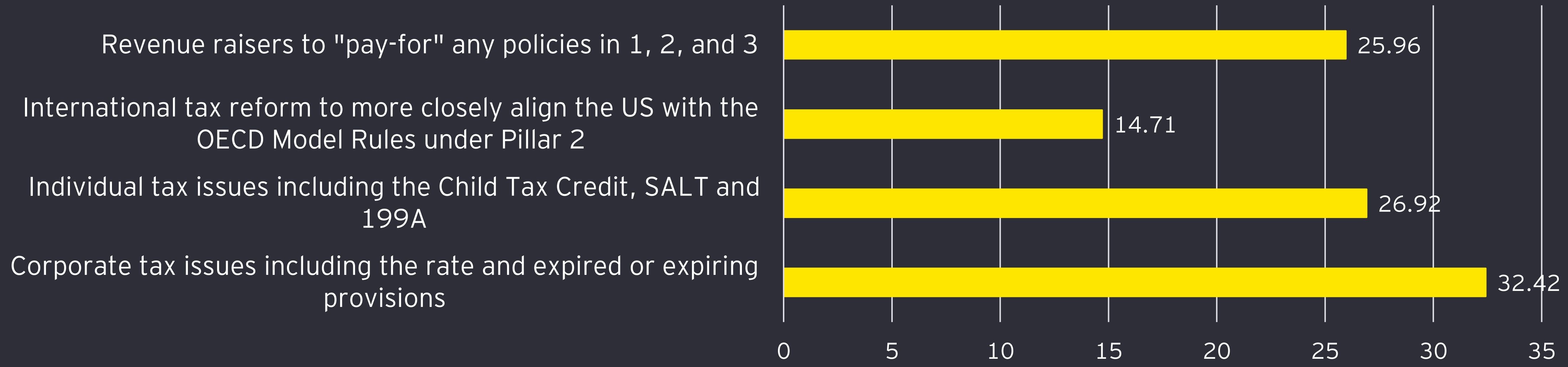
Polling question #4

What tax policies will be the most difficult for policymakers to address as part of a 2025 tax deal?



Other REIT legislative priorities

Bill	Description
H.R. 5275	Restore the 25% Taxable REIT Subsidiary Limit
Revitalizing Downtowns Act (H.R. 419/S. 2511)	20% tax credit for qualified property conversion expenditures of office buildings that are at least 25 years old to new uses, including affordable housing
Saving Our Mainstreet American Locations for Leisure and Shopping Act of 2023 (H.R. 5580)	Facilitate specific debt workouts by easing some of the requirements under current law to exclude cancellation of debt (COD) income from taxable income and to apply to debt workouts by REITs
Retail Revitalization Act (H.R. 3749)	▸ Expand the capacity of a REIT to own the equity of a "distressed" tenant from 10% to 50% temporarily (and for all other tenants from 10% to 30% permanently) ▸ Increase the amount of space that a REIT could lease to its taxable REIT subsidiary ▸ Eliminate the so-called "double downward" attribution rules for purposes of determining whether a tenant's rent is disqualified "related party rent."
Stop Predatory Investing Act (S. 2224)	Prohibit an investor who acquires 50 or more single-family rental homes from deducting interest or depreciation on those properties

SEC climate ruling

Regulatory developments: final SEC climate-related disclosure rules

Overview

- The rules apply to substantially all registrants, including emerging growth companies (EGCs), smaller reporting companies (SRCs) and foreign private issuers (FPIs).
- Disclosures will be required in registration statements (e.g., Form S-1, Form 10, Form F-1, Form 20-F) and annual reports (i.e., Form 10-K and Form 20-F).
- The disclosure threshold for most of the requirements is the US Supreme Court's definition of materiality but certain financial statement disclosures are subject to bright-line 1% thresholds.
- The compliance dates depend on a registrant's filer status and the type of disclosure, and the rules will be phased in starting in fiscal years beginning in calendar 2025.

Disclosures outside the audited financial statements

- Material climate-related risks, their actual and potential material impacts and the processes to identify, assess and manage the risks
- Details about material transition plans, scenario analysis and internal carbon prices, if applicable
- Material climate-related targets and goals, related progress and their effects
- Board oversight of climate-related risks, targets and goals
- Management's role in assessing and managing material climate-related risks
- Scope 1 and Scope 2 greenhouse gas (GHG) emissions, if material (accelerated and large accelerated filers only; nonaccelerated filers, SRCs and EGCs exempt)

Disclosures in a note to the audited financial statements

- Contextual information about all the disclosures (e.g., how each financial statement effect was derived and the policy decisions made to calculate)
- Aggregate incurred expenses and losses and capitalized costs resulting from severe weather events and other natural conditions if at least 1% of pretax income or loss (income statement) or 1% of total stockholders' equity or deficit (balance sheet), subject to de minimis thresholds
- Separate disclosure of any recoveries resulting from severe weather events and other natural conditions if above effects are required to be disclosed
- Information about carbon offsets or renewable energy credits or certificates (RECs), if carbon offsets or RECs are a material component of plans to achieve disclosed climate-related targets and goals
- Material impacts of certain climate-related items (e.g., disclosed targets and goals) on the estimates and assumptions used in preparing the financial statements

Assurance requirements

- Scope 1 and 2 GHG emissions disclosures subject to limited assurance (accelerated and large accelerated filers only) and to reasonable assurance at a later time (large accelerated filers only)
- Assurance providers must be independent and have significant experience in measuring, analyzing, reporting or attesting to GHG emissions
- Disclosures about the current assurance provider and any previously engaged providers who resigned, declined to stand for reappointment or were dismissed
- Disclosures about voluntary assurance, including for assurance obtained before it is required over GHG emissions reported in an SEC filing (e.g., disclosures about the assurance provider, standards used, scope and level of assurance, as well as the results of the engagement)
- Assurance standards used must be publicly available at no cost and widely used for GHG emissions assurance, among other requirements

Regulatory developments: final SEC climate-related disclosure rules compliance dates

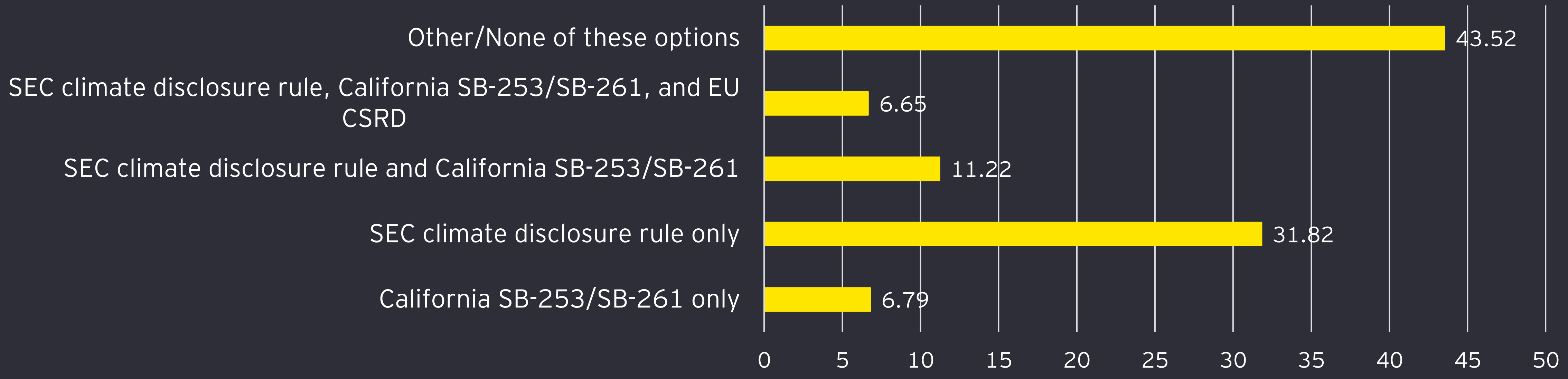
The rules will become effective 60 days after publication in the Federal Register. The SEC adopted staggered compliance dates that vary according to the filing status of the registrant and the type of disclosure. Registrants will be required to comply in the fiscal years beginning (FYB) in the calendar years shown below.

Registrant type	Compliance date				
	All disclosures, other than as noted in this table and endnote [1]	Scope 1 and Scope 2 GHG emissions	Limited assurance	Reasonable assurance	Electronic tagging
Large accelerated filers	FYB 2025	FYB 2026	FYB 2029	FYB 2033	FYB 2026
Accelerated filers (other than SRCs and EGCs)	FYB 2026	FYB 2028	FYB 2031	N/A	FYB 2026
SRCs, EGCs and non-accelerated filers	FYB 2027	N/A	N/A	N/A	FYB 2027

[1] Compliance with quantitative and qualitative disclosure requirements outside the financial statements for material expenditures and material impacts on financial estimates and assumptions that directly result from (1) activities to mitigate or adapt to the climate-related risks, (2) targets or goals and (3) transition plans will be required one year later (i.e., FYB 2026 for large accelerated filers, FYB 2027 for accelerated filers other than SRCs and EGCs, and FYB 2028 for SRCs, EGCs and non-accelerated filers).

Polling question #5

Which of the following ESG regulations will your company be required to comply with?



Determining what is material to your company

The definition of materiality in the SEC climate rule is consistent with the traditional notion of materiality defined by the US Supreme Court.[1,2]

Materiality

- ✓ A matter ***is material if there is a substantial likelihood that a reasonable investor would consider it important*** when determining whether to buy or sell securities or how to vote.
- ✓ A reasonable investor would view omission of the disclosure ***as having significantly altered the "total mix" of information made available.***
- ✓ Materiality determination is fact-specific and one that requires ***both quantitative and qualitative consideration.***[1,2]

[1] SEC Final Rule Release No. 33-11275, The Enhancement and Standardization of Climate-Related Disclosures for Investors
[2] TSC Industries v. Northway, Inc., 426 U.S. 438, 449 (1976); SAB No. 99

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Determining what is material to your company

Disclosures outside of financial statements	Disclosure within the financial statements
Material climate-related risks along with the actual and potential ***material*** impacts of each risk, including those on strategy, business model and outlook	Expenditures expensed and losses incurred as a result of severe weather events and other natural conditions, excluding recoveries, exceeding 1% of the absolute value of pretax income or loss, if amounts aggregate to equal or exceed $100,000
Material expenditures and impacts on financial estimates and assumptions that, in management's assessment, directly result from activities to mitigate or adapt to the risks	
Transition plan if the plan is adopted to manage a ***material*** transition risk	Capitalized costs and charges incurred as a result of severe weather events and other natural conditions, excluding recoveries, exceeding 1% of the absolute value of stockholders' equity or deficit, if amounts aggregate to equal or exceed $500,000
Use of scenario analysis to assess the impact of climate-related risks if the analysis determines a climate-related risk is reasonably likely to have a ***material*** impact	If a registrant is required to provide disclosures on incurred expenses and losses or capitalized costs and charges, the aggregate amount of recoveries recognized
Use of an internal carbon price when it is ***material*** to how a registrant evaluates and manages a climate-related risk	Information about carbon offsets or RECs if they are deemed a ***material*** component of the registrant's plans to achieve its disclosed climate-related targets
Risk management process for identifying, assessing and managing ***material*** climate-related risks	Whether and how exposures to risks and uncertainties associated with, or known impacts from, severe weather events and other natural conditions ***materially*** impacted estimates and assumptions used to prepare financial statements
Any climate-related targets or goals that have ***materially*** affected or are reasonably likely to ***materially*** affect the business, results of operations or financial condition	Whether and how disclosed climate-related targets or transition plans ***materially*** impacted estimates and assumptions used in preparing financial statements
Scope 1 and 2 GHG emissions, if ***material***	

Defining severe weather and natural condition

Severe weather events and natural conditions are illustrated by the Rule through a non-exhaustive and non-exclusive list of examples.

Severe weather and natural condition

- ✓ Such *as hurricanes, tornadoes, flooding, drought, wildfires, extreme temperatures and sea level rise*
- ✓ *Not required to make a determination* that a severe weather event or other natural condition *was, in fact, caused by climate change*[1]

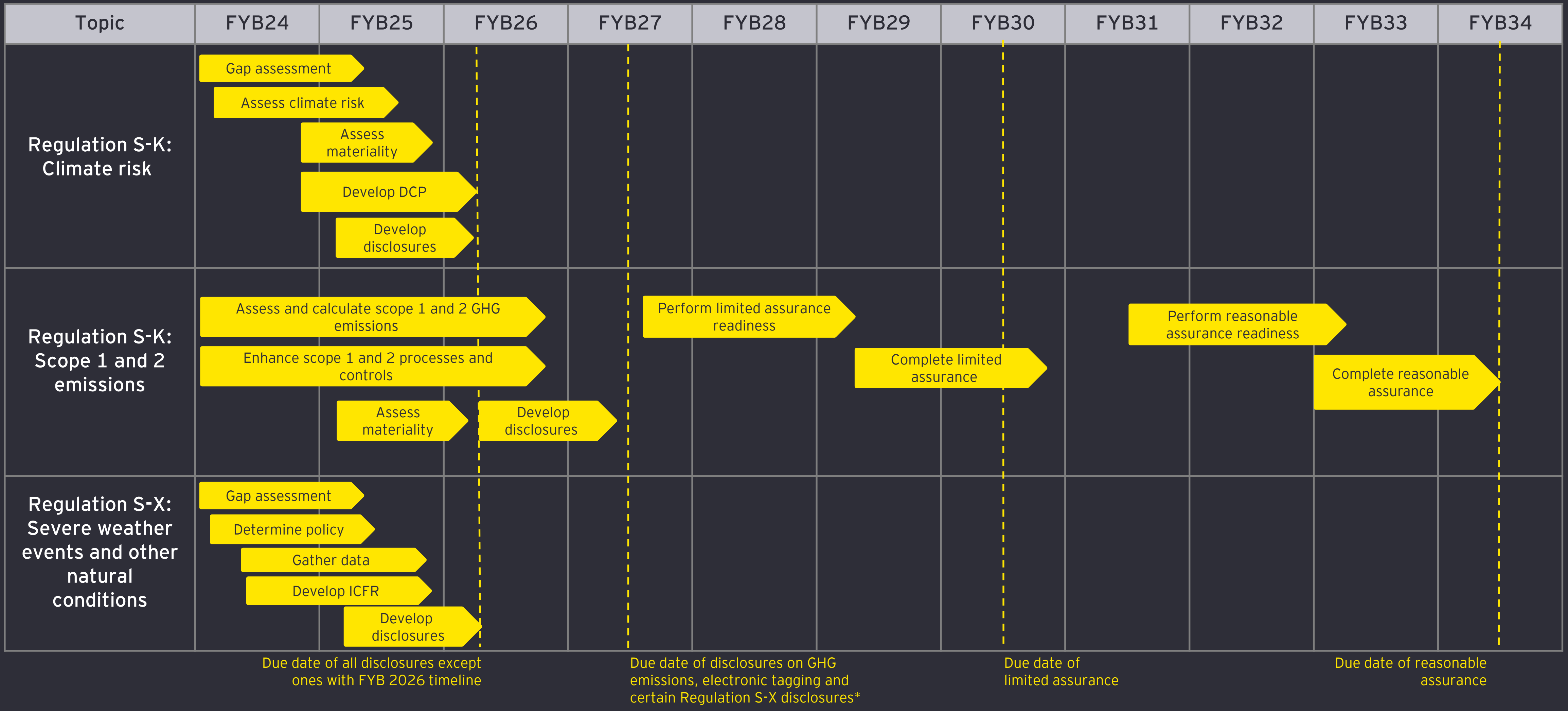
- The Commission *designed the list as non-exhaustive and non-exclusive because it thinks it is more appropriate to take a flexible approach to enable registrants to exercise judgment in identifying severe weather events or other natural conditions based on the impacts those events have on their financial condition.*[2]
- Registrants will have the *flexibility to* determine what constitutes a severe weather event or other natural condition based on the particular risks faced by the registrant, taking into consideration the *registrant's geographic location, historical experience and the financial impact of the event on the registrant, among other factors.*[3]

[1] SEC Final Rule Release No. 33-11275, The Enhancement and Standardization of Climate-Related Disclosures for Investors

[2] SEC Final Rule Release No. 33-11275, The Enhancement and Standardization of Climate-Related Disclosures for Investors, page 486

[3] SEC Final Rule Release No. 33-11275, The Enhancement and Standardization of Climate-Related Disclosures for Investors, page 485

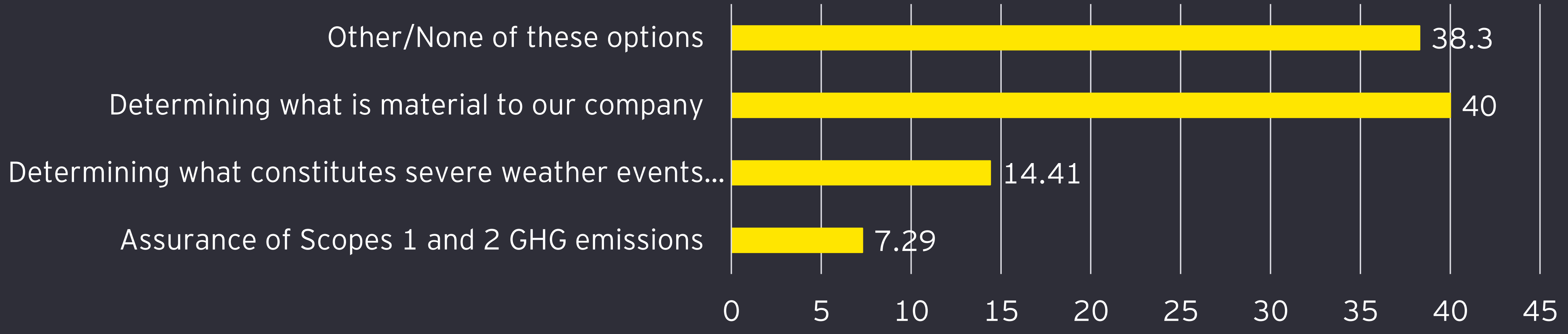
Illustrative roadmap for a large accelerated filer



* Such Regulation S-X disclosures entail material expenditures and material impacts on financial estimates and assumptions that directly result from (1) activities to mitigate or adapt to the climate-related risks, (2) targets or goals and (3) transition plans

Polling question #6

Which of these is currently your biggest area of concern when considering compliance with the SEC climate disclosure rule?



Thank you

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US SCORE no. 23170-241US
US SCORE no. 22784-241US (Tax and Legislative Outlook)
US SCORE no. 22907-241US (SEC slides)

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