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Creating a climate of change digest

Climate risk regulatory developments in the financial services industry

The SEC's much-anticipated proposal would require disclosing climate-related risks, greenhouse gas emissions (GHG), and climate-related financial metrics.

On March 21, 2022, the Securities and Exchange Commission (SEC) issued its much-anticipated rulemaking proposal that would enhance and standardize the climate-related disclosures provided by public companies.[1] In his statement expressing support for the proposal, SEC Chair Gary Gensler emphasized that "if adopted, it would provide investors with consistent, comparable, and decision-useful information for making their investment decisions and would provide consistent and clear reporting obligations for issuers."[2]

The proposal would apply to both domestic companies and foreign private issuers. Under the proposed rule, a registrant would be required to provide disclosures in its registration statements and annual reports (e.g., Form 10-K). These would include climate-related financial impact and expenditure metrics as well as a discussion of climate-related impacts on financial estimates and assumptions—all of which would be presented in a footnote to the audited financial statements.

Outside of the financial statements, a registrant would need to provide quantitative and qualitative disclosures in a separately captioned "Climate-Related Disclosure" section that would immediately precede Management Discussion and Analysis (MD&A). These disclosures would address:

- Scope 1, Scope 2, and Scope 3 greenhouse gas emissions
- Climate-related risks and opportunities
- Climate risk management processes
- Climate targets and goals as well as transition plans, if any
- Governance and oversight of climate-related risks

Such disclosures would be subject to management's disclosure controls and procedures and certifications. In addition, the Scope 1 and Scope 2 GHG emission disclosures would be subject to attestation requirements consisting of limited assurance during a phase-in period, followed by reasonable assurance[3] thereafter.

Key takeaways

This rule marks an inflection point: Once the proposal is finalized, climate reporting would move from being voluntary to being regulated, with climate information disclosed in a consistent format and integrated into financial filings. By providing standardized, reliable, and consistent climate disclosure, investors and other stakeholders can understand how climate change might affect the companies they work with, oversee, and buy from. This, along with the SEC's previous announcement on cybersecurity,[4] underscores a remarkable shift in the environmental, social, and governance landscape.

The proposal is open for public comment through at least May 20, 2022, and if adopted this year, it will likely apply to most public companies beginning with the 2023 annual report.

For Deloitte's comprehensive analysis on the proposed climate rule, please see our "Heads Up" published on March 29, 2022.

Additional developments[5]

ISSB publishes draft standards on sustainability and climate disclosures.

The International Sustainability Standards Board (ISSB), established at the Conference of the Paris Climate Summit (COP26) to develop a "global baseline" for green disclosures to investors, recently published its first two proposed standards for sustainability and climate-related disclosures. One sets out general sustainability-related disclosure requirements;[6] the other specifies climate-related disclosure requirements.[7] The proposals build on recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and incorporate industry-based disclosure requirements derived from Sustainability Accounting Standards Board (SASB) standards. Companies would have to produce information aimed at helping investors assess enterprises to be published at the same time as its general financial statements. That would include information on governance, strategy, risk management, metrics, and targets.

Given the critical role authoritative standards increasingly play in driving high-quality disclosures and accelerating preparedness for enhanced regulatory disclosure requirements, this is an important development. The deadline for submitting comments is July 29, 2022.

Additional Deloitte perspective on climate risks

For additional insights, please see our ongoing series on how climate risks are shaping US financial regulatory initiatives and the impact these developments may have on the financial services industry and the broader economy.

- ***Translating banks' climate commitments into action: Going green isn't always black and white***
- ***Embedding climate risk into banks' credit risk management***
- ***Centering around sustainability in financial services firms: Navigating risks, finding opportunities***
- ***Addressing the business ramifications of climate risk on banks***

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Endnotes

1. Securities and Exchange Commission (SEC), Proposed Rule Release No. 33-11042, "The Enhancement and Standardization of Climate-Related Disclosures for Investors," accessed on April 1, 2022.
2. Ibid.
3. The objective of a limited assurance engagement is for the service provider to express a conclusion about whether it is aware of any material modifications that a registrant should make to ensure that the subject matter (e.g., the Scope 1 and Scope 2 GHG emission disclosure) is fairly stated or in accordance with the relevant criteria. By contrast, the objective of a reasonable assurance engagement, which provides the same level of assurance as an audit of a registrant's financial statements, is to express an opinion on whether the subject matter is, in all material respects, in accordance with the relevant criteria.
4. SEC, "SEC Proposes Rules on Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure by Public Companies," press release, March 9, 2022.
5. Please note: The US and global regulatory developments highlighted in the newsletter are not exhaustive of all activities occurring between late March and early April 2022 but rather are a representative sampling of them.
6. IFRS Foundation, "IFRS Sustainability Disclosure Standard Exposure Draft," March 2022.
7. Ibid.

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