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Join us on April 5, 2022, from 2 to 3 p.m. ET, for a special-edition Dbriefs webcast, "Understanding the SEC's Proposed Climate and Cyber Disclosure Rules."

Executive Summary of the SEC's Proposed Rule on Climate Disclosure Requirements

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Background

On March 21, 2022, the SEC issued a proposed rule[1] that would enhance and standardize the climate-related disclosures provided by public companies. As SEC Chair Gary Gensler noted in his statement about the proposed rule, "[t]oday, investors representing literally tens of trillions of dollars support climate-related disclosures because they recognize that climate risks can pose significant financial risks to companies, and investors need reliable information about climate risks to make informed investment decisions."

Under the proposed rule, a registrant would be required to provide disclosures about greenhouse gas (GHG) emissions (with attestation for Scope 1 and Scope 2 disclosures), certain financial statement disclosures, and qualitative and governance disclosures within its registration statements and annual reports (e.g., Form 10-K). Comments on the proposed rule are due 30 days after its publication in the *Federal Register* or May 20, 2022, whichever is later.

The proposal arrives approximately one year after then Acting SEC Chair Allison Herren Lee issued a request for input on climate-change disclosures as a prelude to rulemaking. Chair Gensler has similarly focused on climate risks and climate-related disclosures during his tenure. For example, in testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, he noted that "[c]ompanies and investors alike would benefit from clear rules of the road" and that he had directed the SEC staff to consider economic analysis and public comment in developing the requirements related to such disclosures.

[1] SEC Proposed Rule Release No. 33-11042, *The Enhancement and Standardization of Climate-Related Disclosures for Investors.*

Key Components of the Proposed Climate Disclosure Requirements

In the proposing release, the SEC noted that certain aspects of the disclosures registrants would be required to provide are similar to those that some companies provide under existing disclosure frameworks and standards, such as the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) and the Greenhouse Gas Protocol. Registrants would be required to provide the following types of disclosures:

- *Financial statement footnote disclosures*:
    - The impact on financial statement line items related to severe weather events and other natural conditions (e.g., impairment charges, increased loss reserves) and transition activities (e.g., changes in salvage values or useful lives of assets) if such amount exceeds 1 percent of the related line item.
    - The expenditures related to mitigating the risk of severe weather events and other natural conditions and transition activities if such amount exceeds 1 percent of the total amount expensed or capitalized.
    - How severe weather events and other natural conditions and transition activities affected estimates and assumptions reflected in the financial statements.
- *GHG emission disclosures*:
    - Scope 1 and Scope 2 GHG emissions (i.e., from a registrant's owned or controlled operations and purchased or acquired electricity, steam, heat, or cooling, respectively), which would need to be separately disclosed on a disaggregated (by each GHG) and aggregated basis. This disclosure would be required on a gross basis (before consideration of any offsets) and relative to intensity (e.g., tons of carbon dioxide per dollar of revenue).
    - Scope 3 GHG emissions (i.e., from indirect upstream and downstream activities) in gross terms (before consideration of any offsets) and relative to intensity, if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions or if Scope 3 emissions are material. Scope 3 GHG emission disclosures would be subject to securities law safe harbor provisions.
- *Qualitative disclosures*:
    - How climate-related risks have (1) had or are likely to have a material impact on the business and its financial statements as well as (2) affected or are likely to affect the registrant's "strategy, business model, and outlook."
    - The registrant's processes for detecting, evaluating, and managing climate-related risks and whether those processes are integrated into the registrant's broader risk management program.
    - If a registrant uses an internal carbon price, the registrant's internal carbon price and how such price is determined.
    - If the registrant uses a scenario analysis to assess its business in the context of climate-related risks, a description of the scenarios, assumptions, and projected financial impacts.
    - If a registrant has adopted a climate transition plan, a description of such plan as well as relevant targets and metrics.
    - If the registrant has publicly disclosed climate-related targets or goals:
        - The scope of activities encompassed, the time horizon envisioned, and any interim targets established.
        - How the registrant plans to achieve its targets or goals.
        - An update each year of how the registrant is progressing relative to its targets or goals and how such progress has been achieved.

    - If carbon offsets or renewable energy certificates (RECs) have been used as part of the plan to achieve climate-related targets or goals, information about the carbon offsets or RECs, including how much of the progress made is attributable to offsets or RECs.

- *Governance disclosures* — How the registrant's board of directors and management oversee climate-related risks, the risk management process, and the registrant's response.
- *Location, timing, and applicability of the required disclosures* — Under the proposed rule, a registrant would provide the disclosures in its registration statements as well as its annual reports filed under the Securities Exchange Act of 1934. The disclosures outlined in the financial statement footnote disclosures section above would be required in the financial statements, whereas the remaining disclosures, including GHG emissions, would be required in a newly created section of Form 10-K (Item 6) immediately before MD&A. The disclosures would be due at the same time as a registrant's annual report and would be required for both domestic and foreign registrants. As discussed below, smaller reporting companies would be exempt from Scope 3 GHG emission disclosure requirements.
- *Attestation requirements* — The financial statement footnote disclosures would be subject to existing financial statement audit requirements. The Scope 1 and Scope 2 GHG emission disclosures would be subject to limited assurance during a phase-in period, followed by reasonable assurance.
- *Phase-in period of the proposed rule* — If the proposed rule's requirements become effective in December 2022, the mandatory compliance date for their adoption for a registrant with a calendar year-end would be as follows:

Registrant Type	All Disclosures Except Scope 3 GHG Emission Disclosures	Scope 3 GHG Emission Disclosures	Attestation on Scope 1 and Scope 2 GHG Emission Disclosures
Large accelerated filer	2023	2024	Limited assurance — 2024 Reasonable assurance — 2026
Accelerated filer	2024	2025	Limited assurance — 2025 Reasonable assurance — 2027
Nonaccelerated filer	2024	2025	Not required

  Smaller reporting companies would be exempt from Scope 3 GHG emission disclosures and would have an additional year of transition (i.e., all other disclosures would be required in 2025).

For a comprehensive analysis of the proposed rule, see Deloitte's March 29, 2022, *Heads Up*.

Questions to Consider

In a recent Deloitte survey of 300 finance, accounting, sustainability, and legal executives at public companies with over $500 million in revenue, more than half (57 percent) indicated that data availability (access) and data quality (accuracy or completeness) remain their greatest challenges with respect to environmental, social, and governance (ESG) data for disclosure. Less than a quarter (21 percent) of respondents currently have an ESG council or working group focused on ESG topics; however, more than half (57 percent) are actively working to establish one. A strong majority (82 percent) also believe that they will need additional resources to generate ESG disclosures that meet the information needs of critical stakeholders.

Given the challenges expressed by survey respondents and in anticipation of the final rule, companies may wish to begin preparing now by using the proposed rule as a framework and by considering the following questions:

- With whom does the oversight responsibility for climate-related or other ESG risks and opportunities reside? What involvement does finance, internal audit, the audit committee, or the board of directors have? What policies and procedures are in place to govern such involvement?
- What climate-related information is currently gathered and available? What level of assurance is currently obtained over this information? What additional information (if any) would need to be developed or gathered (including for disclosure in the audited financial statements)?
- How does the company evaluate the materiality of climate-related disclosures? Are there systems and processes in place for gathering the necessary information for determining whether such disclosures are material?
- What disclosure controls and procedures are in place to address the proposed rule's disclosure requirements, and what internal controls over financial reporting are in place to address the disclosure that would be required in the audited financial statements?
- When is climate-related information currently prepared and reviewed? How does that timing compare with the reporting deadlines proposed by the SEC? What resources (e.g., people, processes, technologies) would the company need to meet the proposed reporting deadlines?

As noted above, the SEC has indicated that the proposed rule is consistent with existing frameworks or standards, such as those recommended by the TCFD and the GHG Protocol. Therefore, registrants that already provide such disclosures may be better positioned to implement the proposed rule's requirements.

Other Resources

In addition to the resources discussed above, Deloitte resources such as the following may help companies assess their approach to climate-related disclosures:

- *Heads Up — #DeloitteESGNow — Setting the Standard: When ESG and Climate Reporting Meet Financial Reporting*.
- *Financial Reporting Alert — Financial Reporting Considerations Related to Environmental Events and Activities*.
- *Heads Up — SEC Publishes Sample Comments on Climate-Change Disclosures*.
- *Heads Up — SEC Requests Input on Climate-Related and Other ESG Disclosures*.
- *Defining the Role of the Audit Committee in Overseeing ESG*.

See also:

- *Sustainability and Business — The Call to Action: Build Back Better*.
- *Sustainability Frameworks & Standards: Sustainability Accounting Standards Board*.
- *Sustainability and Business — Environmental Protection Introduction: Putting the E in ESG*.
- *Considerations of ESG-Related Matters in an Audit of Financial Statements*.
- *ESG Reporting and Attestation: A Roadmap for Audit Practitioners*.

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