## Navigating the new SEC cybersecurity disclosure requirements

Four steps to help you prepare and comply



On July 26, 2023, the Securities and Exchange Commission (SEC) issued a final rule<sup>1</sup> requiring registrants to provide enhanced and standardized disclosures regarding cybersecurity risk management, strategy, governance, and incidents.

The final ruling addresses concerns over investor access to timely and consistent information related to cybersecurity as a result of the widespread use of digital technologies and artificial intelligence, the shift to hybrid work environments, the rise in the use of crypto assets, and

the increase in illicit profits from ransomware and stolen data, all of which continue to escalate

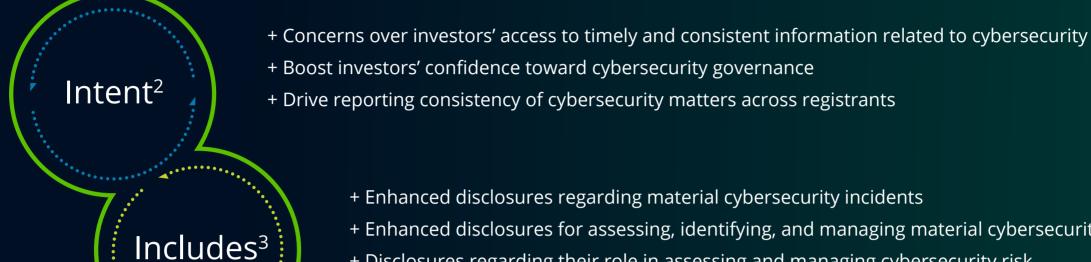
cybersecurity risk and its related cost to registrants and investors. The new disclosure requirements take effect starting on or after December 15, 2023, and Deloitte is here to help your organization

plan for the enhanced transparency mandated by the latest rule.

1 Securities and Exchange Commission (SEC), "SEC adopts rules on cybersecurity risk management, strategy, governance, and incident disclosure by public companies," press release, July 26, 2023.

## Final rule background

The final rule incorporates certain key changes from the proposed rule. It can be summarized in these three distinct areas:



- + Boost investors' confidence toward cybersecurity governance
- + Drive reporting consistency of cybersecurity matters across registrants

Impacts<sup>2</sup>

+ Enhanced disclosures for assessing, identifying, and managing material cybersecurity risks + Disclosures regarding their role in assessing and managing cybersecurity risk

+ Enhanced disclosures regarding material cybersecurity incidents

- + Disclosures regarding the board of directors (board) role for oversight of cybersecurity risk
- + Public, emerging growth, and smaller reporting companies subject to the reporting requirements of the Securities Exchange Act of 1934
- + Foreign private issuers (FPIs) + All companies with relevant disclosure obligations on Forms 10-K, 10-Q, 20-F, 8-K, 6-K, or
- proxy statements

# Overview of final rules

The final rules focus on improving and standardizing disclosures related to cybersecurity incidents, 5 as well as reporting on cybersecurity risk management, strategy, and governance for public companies.



#### **Disclosure of** cybersecurity incidents

- + Report "material" cybersecurity incidents
- materiality determination, without "unreasonable delay"

reasonably likely material impact

within four business days, based on

+ Disclose if one or more of the above required items is not determined or

is unavailable at the time of the filing

+ Describe the incident's material impact or

Periodic Form 8-K Item 1.05



# risk, management, & strategy

**Disclosure of cybersecurity** 

- identifying, and managing material risks from cybersecurity threats + Describe how processes have been
- integrated into an overall risk management system or processes + Describe risks, including those resulting
- from previous incidents, that have materially affected or are reasonably likely to materially affect business strategy, results of operations, or financial condition + Disclose whether cybersecurity program
- engages consultants, auditors, or other third parties, as well as the processes to identify and manage risk from third parties



### Disclosure of cybersecurity governance

- + Describe the board's oversight of risks from cybersecurity threats, and identify the committee or subcommittee responsible for oversight and the process for informing such committees
- + Describe management committees or positions responsible for, and experience with, assessing and managing cyber risks + Disclose whether and how management
- reports cybersecurity information to the board or a committee or subcommittee of the board

Annually 10-K, Regulation S-K Item 106(c)

5 As per SEC, materiality of an incident is based on company's evaluation of the incident. The content on this slide is based on Deloitte's "SEC issues new requirements for cybersecurity disclosures

#### Taking action to prepare and comply Here are four practical steps you can take to prepare for and comply with SEC cybersecurity rules for public companies.

Annually 10-K, Regulation S-K Item 106(b)



### Safeguard the organization's reputation and protect against cyber risks while complying with SEC rules: + Develop a foundation to evolve response

**Conduct an SEC readiness assessment** 

+ Provide evidence that you are taking steps capabilities as threats evolve to comply + Identify potential risks and address issues + Understand maturity of incident response,

- promptly
- escalation, and reporting processes



#### + Define materiality criteria and embed in + Learn from past incidents and improve

Evolve cyber incident response and reporting capabilities

resilience incident processes + Continue to meet disclosure obligations as + Maintain investor confidence and protect

Protect the organization's interests, maintain trust, and strengthen overall cyber resilience

+ Facilitate timely and appropriate

incidents evolve

shareholder value



#### disclosures disclosure + Combine legal guidance with cybersecurity + Provide consistent disclosures with

Apply stakeholder coordination and orchestration processes

experience transparency

Develop broad disclosure capabilities that are interconnected

+ Strengthen governance by educating the

+ Implement operating models for risk

responsible for cybersecurity oversight

+ Develop accountability for compliance and



#### board and management management + Foster a culture of responsibility and + Identify board committee or subcommittee

policies and procedures, incident response, and effective governance capabilities.

**Enhance the cybersecurity governance framework** 

Provide shareholders with confidence that cyber is a top organizational priority

Effective cybersecurity capabilities that are essential for compliance and form the basis of a strong cybersecurity program include, but are not limited to:6 continuous logging and monitoring, enhanced

accountability

<sup>6</sup> The above list is not an exhaustive compilation of all the actions that should be taken or capabilities deployed. Additional cybersecurity measures and leading practices may also be required to determine protection and compliance with SEC requirements for cybersecurity disclosures.

Contact us

Learn more about how Deloitte is helping clients navigate understanding and complying with the SEC's Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure ruling for public companies.



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