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SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Perspectives for Financial Services Organizations

July 2022

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Executive summary

PURPOSE	The Securities and Exchange Commission (SEC) on March 21, 2022, approved (3-1, along party lines) a much-anticipated rule proposal mandating and standardizing climate-related disclosures by public companies.[1] The proposal reflects increasing investor demand for consistent and reliable climate disclosures.
SCOPE OF APPLICATION	The proposed disclosure requirements would apply to all public-company issuers and be reported in firms' registration statements and annual reports (e.g., Form 10-K).

The rule proposes three primary climate-related disclosure categories:

1. **Governance disclosures (climate-related risks):** How identified climate-related risks have or are likely to have a material impact on a company's strategy, business model and outlook, and risk management processes.
2. **Climate-related financial statement footnote disclosures:** For example, disaggregated climate impacts on financial statement line items and impact of climate-related physical events and transition activities on estimates and assumptions:

    a. The impact on financial statement line items related to severe weather events and other natural conditions (e.g., impairment charges, increased loss reserves) and activities (e.g., changes in salvage values or useful lives of assets) if such amount exceeds 1 percent of the related line item.
    b. The expenditures related to mitigating the risk of severe weather events and other natural conditions and transition activities if such amount exceeds one percent of the total amount expensed or capitalized.

3. Greenhouse gas (GHG) emission disclosures: including Scope 1 and 2 (and Scope 3 phased in if material or if registrant has Scope 3 target):

a. 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.
b. Scope 3 GHG emissions (i.e., from indirect upstream and downstream activities) in gross terms (before consideration of any offsets). Scope 3 GHG emission disclosures would be subject to securities law safe harbor provisions.

Source 1 : SEC Climate-Related Disclosures Proposed Rule

Key takeaways from the rule proposal

The rule proposal is a significant first step toward a common US climate disclosure framework and reflects substantial investor demand for this information. Here are Deloitte's key takeaways from the proposal:

1. **The proposal borrows heavily from and is largely consistent with the Task Force on Climate-Related Financial Disclosures (TCFD)[2] framework.**

2. **More clarity and specificity around the proposed financial statement metrics may be needed.**

3. **Certain aspects of the proposed rule could have unintended consequences. For example, under the proposal companies that set emissions targets would be required to disclose their targets and associated plans, which might discourage some firms from setting targets or result in firms setting less ambitious targets.**

4. **The rule proposal[3] contains more than 200 questions spanning every aspect of the proposal, suggesting that the substance of the final rule remains subject to change.**

5. **In developing a final rule, the SEC will look to balance investor demand for accurate and consistent information with issuers' considerations and concerns.**

Source 2 : [TCFD framework]
Source 3: [SEC Climate-Related Disclosures Proposed Rule]

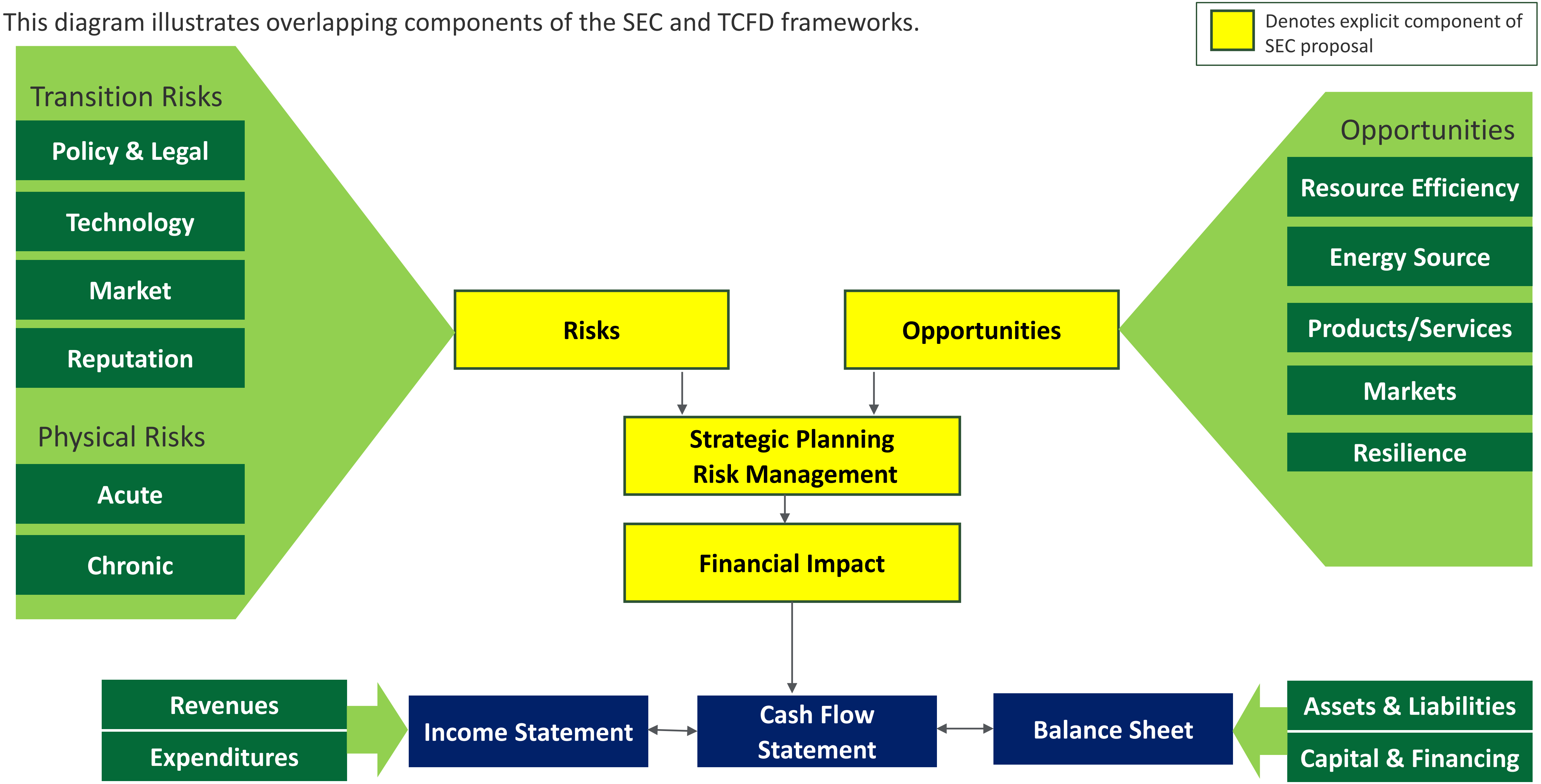
Pillars of the SEC Climate Disclosure Rule Proposal

Strategy Business Model and Outlook	Governance	Risk Management Disclosure	Financial Statement Metrics	GHG Emission Metrics Disclosure	Target and Goals Disclosure
• Disclose any material climate-related risks and impacts of the identified climate-related risks on the company's business operations, products/services, supply chain, etc. • Disclose how these identified impacts are considered as part of the firm's business strategy, financial planning, and capital allocation • If a company uses carbon offsets or renewable energy credits, it will have to disclose the roles they play in its climate-related business strategy • If the company maintains an internal carbon price, specific carbon pricing information must be disclosed • Describe the resilience of its business strategy considering potential future changes in climate-related risks • Describe any analytical tools (e.g., scenario analysis) that the company uses to assess the impact of climate-related risks on its business or to support the resilience of its strategy and business model	• Proposed rules are intended to provide investors with additional insight into a Board's and management's governance of climate-related risks • Climate-related issues should be subject to the same level of board oversight as other financially material matters • Investors have noted that climate-related inputs have many uses in the capital allocation decision-making process including, but not limited to, insight into governance and risks management practices, integration into various valuation models, and credit research and assessments • Disclosure requirements based on specific recommendations of the TCFD	Disclose how the company identifies, assesses, and manages climate-related risks: • Description of processes for identifying and assessing climate-related risks • Description of how processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management • Description of plans to transition to a low-carbon economy if GHG emissions reduction commitments are adopted	• Financial statement metrics disclosures will involve estimation uncertainties driven by the application of judgment and assumption • Highlight the basis of calculation of metrics and assumptions clearly which make all registrants understandable, consistent and comparable. • Registrants need to disclose climate related financial statements in line with the regular financial statement for their latest fiscal year and historical years • Disclose in a note to their financial statement's climate-related metrics impacting their consolidated financial statements beyond a one percent threshold. • The rules also propose similar metrics as efforts related to mitigating climate risks and related to transition activities	• Separate disclosure of the registrant's Scope 1 and Scope 2 GHG emissions, both expressed by disaggregated constituent GHGs and in the aggregate, absolute terms (excluding offsets) and in terms of intensity • **Disclosure of Scope 3 GHG emissions, if material, or if the registrant has Scope 3 related GHG emissions** reduction target or goal, in absolute terms (excluding offsets) and in terms of intensity • Detailed disclosure of GHG Emissions Intensity, Methodology and Historical period data • Proposal based on recommendations of TCFD framework and GHG Protocol standards[4]	• Disclose established climate-related targets or goals, along with the timeline for that target or goal, how the target or goal is to be measured, and how progress against the target or goal is to be tracked • Disclose relevant data to indicate whether any progress has been made toward achieving the target or goal and how such progress has been achieved. Disclosure needs to be updated each fiscal year by describing the actions taken during the year to achieve the firm's targets or goals

Source 4 : Green House Gas Protocol Corporate Standard

TCFD framework for climate-related risks, opportunities, and financial impact[5]

This diagram illustrates overlapping components of the SEC and TCFD frameworks.



Source 5 : TCFD framework

Phase-in periods for the proposed disclosures

2022

Final Rule*

*Timeline assumes that a final rule becomes effective in December 2022 and that the filer has a December 31st fiscal year-end

2023

2024

Initial filing for Large Accelerated Filers

- All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric for fiscal year 2023
- Scope 3 emission disclosures to be filed from next year

2025

Scope 3 filing for Large Accelerated Filers

- GHG emissions metrics for Scope 3 emissions and associated intensity metric for fiscal year 2024

Initial filing for Accelerated Filers

- All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric for fiscal year 2024
- Scope 3 emission disclosure to be filed from next year

2026

Scope 3 filing for Accelerated Filers

- GHG emissions metrics for Scope 3 emissions and associated intensity metric for fiscal year 2025

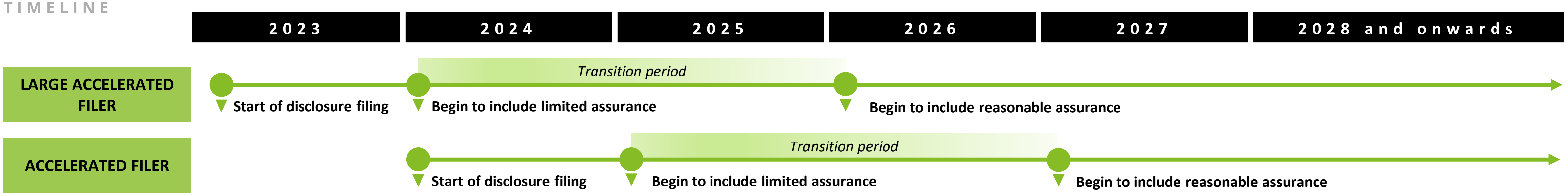
Initial filing for Smaller Reporting Companies (SRC)

- All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric for fiscal year 2025
- SRCs are exempted from filing the scope 3 disclosures

Attestation requirements under the SEC Rule

The SEC Rule would require a domestic or foreign registrant that is an accelerated filer or large accelerated filer to include in the relevant filing an attestation report covering the disclosure of its Scope 1 and Scope 2 emissions and to provide certain related disclosures about the service provider. The proposed transition periods provide existing accelerated filers and large accelerated filers one fiscal year to transition to providing limited assurance and two additional fiscal years to transition to providing reasonable assurance.

TIMELINE



REQUIREMENT SUMMARY

The GHG emissions attestation report is required to prepared and signed by a GHG emissions attestation provider.

Requirements for assurance standards:

- Must be publicly available at no cost
- Must be established by a body or group that has followed due process procedures, which includes broad distribution of the framework for public comment

Requirements for GHG emissions attestation provider:

- Must be an expert in GHG emissions by virtue of having significant experience in measuring, analyzing, reporting, or attesting to GHG emissions
- Must be independent with respect to the registrant, and any of its affiliates, for whom it is providing the attestation report, during the attestation and professional engagement period

***Additional disclosures about attestation provider*:**

- Indicate whether attestation provider has a license from any licensing or accreditation body to provide assurance, and if present, identify the licensing or accreditation body and indicate whether attestation provider is a member in good standing of the licensing or accreditation body
- Indicate whether the GHG emissions attestation engagement is subject to any oversight inspection program, and if so, which program
- Indicate whether the attestation provider is subject to record-keeping requirements with respect to the work performed for the GHG emissions attestation engagement and, if so, identify the record-keeping requirements and the duration of those requirements

POINTS TO NOTE

Scope

Attestation requirements are only applicable for accelerated filers and large accelerated filers.

Accounting Firm

An attestation service provider need not be a registered public accounting firm.

Voluntary Assurance

Voluntary assurance on other climate-related disclosures is required to follow the same attestation standards as required by the Rule for Scope 1 and Scope 2 emissions.

Governance disclosures under the SEC Rule

The proposed rules would require disclosures on Form 10-K about an organization's governance around climate related risks and opportunities. In-scope companies will need to have climate risk governance in place to meet emerging regulatory expectations and, if the SEC proposal is adopted, make disclosures that align with developing industry standards.

REQUIREMENT SUMMARY

Board oversight-related disclosures

The SEC proposal would require disclosures regarding a board of director's oversight of climate-related risks.

Board Oversight Disclosures touch upon items like:

- **Responsibility** - Identity of committees or directors responsible for oversight of climate-related risks
- **Expertise** - Whether any board member has expertise in climate-related risks, with sufficient detail to fully describe the nature of the expertise
- **Board reporting and discussions** - Processes by which the board or board committee discusses climate-related risks, including how it is informed about climate-related risks, and the frequency of such discussions
- **Business strategy, risk management and financial oversight** - Whether and how the board or board committee considers climate-related risks as part of the board's business strategy, risk management, and financial oversight
- **Targets and goals** - Whether and how the board sets climate-related targets or goals and how it oversees progress against those targets or goals

Management Oversight related Disclosures

The SEC proposal would require disclosures regarding management's role in assessing and managing climate-related risks.

The disclosure items largely mirror the board-level disclosure items like:

- **Responsibility** - Identity of certain management positions or committees that are responsible for assessing and managing climate-related risks
- **Expertise** - Relevant expertise of such position holders or members, with sufficient detail to fully describe the nature of the expertise
- **Information processes** - Processes by which such positions or committees are informed about and monitor climate-related risks
- **Board reporting** - Whether and how frequently such positions or committees report to the board or a committee of the board on climate-related risks

POINTS TO NOTE

Investor Insights

Proposed rules are intended to provide investors with additional insight into a Board's and management's governance of climate-related risks

Focus on Governance

Climate-related issues should be subject to the same level of board oversight as other financially material matters

Governance disclosures under the SEC Rule, continued

The proposed rules would require disclosures on Form 10-K about an organization's governance around climate related risks and opportunities. In-scope companies will need to have climate risk governance in place to meet emerging regulatory expectations and, if the SEC proposal is adopted, make disclosures that align with developing industry standards.

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- **Board Reporting and discussions -** Processes by which the board or board committee discusses climate-related risks
- **Targets and Goals -** Whether and how the board sets climate-related targets or goals and how it oversees progress against those targets or goals

Management Oversight related Disclosures

The SEC proposal would require disclosures regarding management's role in assessing and managing climate-related risks, largely mirroring board-level disclosure items like:

- **Responsibility** - Identity of certain management positions or committees that are responsible for assessing and managing climate-related risks
- **Expertise** - Relevant expertise of such position holders or members, with sufficient detail to fully describe the nature of the expertise
- **Information Processes** - Processes by which such positions or committees are informed about and monitor climate-related risks
- **Board Reporting** - Whether and how frequently such positions or committees report to the board or a committee of the board on climate-related risks

WHAT DOES THIS TRANSLATE TO

Committees

- ✓ Formalize the role of a sustainability-focused committee at the board to oversees climate and other ESG risks and opportunities
- ✓ Extend the scope of other Board committees to cover climate risk aspects such as auditing of metrics related to climate risk or inclusion of climate risk metrics to the overall compensation philosophy

Roles and responsibilities

- ✓ Identify a centralized management team accountable for activating the climate risk strategy, identifying targets and key performance indicators, and preparing of all forms of reporting, including responses to strategic inquiries (e.g., shareholders, analysts, raters)
- ✓ Clearly define roles and responsibilities for climate-related risk management and decision making, both at the higher management and individual levels
- ✓ Integrate climate risk across the three lines[6]

Reporting

- ✓ Incorporate climate risk considerations in all business updates to the board and senior management to inform decision making
- ✓ Implement climate risk-related data measurement and reporting at the enterprise level with clearly defined climate-related risk metrics, priorities, and goals

Source 6 : Institute of Internal Auditors, Three Lines Model

Risk management disclosure under the SEC Rule

The proposed rules would require disclosures on Form 10-K about a company's governance, risk management, and strategy with respect to climate-related risks. Moreover, the proposal would require disclosure of any targets or commitments made by a company, as well as its plan to achieve those targets and its transition plan if it has one.

REQUIREMENT SUMMARY

Disclosure of Processes for Identifying and Assessing Climate Risk

- Determine the **relative significance** of climate-related risks compared to other risks
- Consideration of existing or likely **regulatory requirements** or policies such as GHG emissions limits, when identifying climate-related risks.
- Consideration of **transition risks** such as shifts in customer or counterparty preferences, technological changes, or changes in market prices in risk identification and assessment.
- Determine the **materiality** of climate-related risks, including how it assesses the potential size and scope of any identified climate-related risk.

Disclosure of Processes for Managing Climate Risk

- **Integration** of climate-related risks into a registrant's **overall risk management system** or processes.
- Description of processes for **managing climate-related risks** which (i) decide whether to mitigate, accept or adapt to a particular risk; (ii) prioritize whether to address climate-related risks; and (iii) determine how to mitigate any high priority risks.
- **Interaction between the board** or any **management committee** responsible for assessing climate-related risks, if there is a separate and distinct committee of the board or management, in charge of risk assessment and management.

Transition Plan Disclosure *(if an institution has adopted a transition plan as part of its climate-related risk management strategy)*

- Disclose short-, medium- or long-term strategy and implementation plan to reduce climate-related risks
- Describe the transition plan, including the relevant metrics and targets used to identify and manage any physical and transition risks
- Perform scenario analysis to assess the resilience of its business strategy to climate-related risks, a description of the scenarios used, as well as the parameters, assumptions, analytical choices, and projected principal financial impacts
- Update its transition plan disclosure each fiscal year by describing the actions taken during the year to achieve the plan's targets or goals, as proposed

POINTS TO NOTE

Robust Climate risk Strategy

Integrate climate-related risks into the overall risk management process; to identify and assess climate-related risks and to disclose the material impacts on business, strategy, and outlook

ESG Assurance

Disclose the climate transition plan to mitigate or adapt to climate-related risks as well as relevant targets and metrics used in identifying physical and transition risks

Scenario Analysis

Resilience of business strategy in light of potential future changes in climate-related risks

Comparison of TCFD, the EU’s Corporate Sustainability Reporting Directive (CSRD), and the SEC’s proposal

Each + indicates increasing magnitude of focus
Indicates an SEC requirement that is more stringent than either TCFD or CSRD

Comparison summary

Themes	Sub Themes	Magnitude of Focus			Comments
		SEC	TCFD	CSRD	
Strategy Business Model and Outlook	Disclosure of material impacts of climate-related risks on the company and resilience of its business strategy	+++	+++	+++	All three frameworks require disclosure regarding material impacts of climate-related risks on the company and the resilience of the business model with regards to sustainability matters. Only the SEC and TCFD frameworks specifically mention disclosure of the impact of climate-related risks on the company's financials.
	Disclosure of (a) Carbon Offsets or Renewable Energy Credits (RECs) If Used (b) Maintained Internal Carbon Price if used	+++	++	+	Disclosure regarding carbon offsets and RECs is only mentioned in the SEC framework and is required only if the company uses them. Disclosure regarding internal carbon price is mentioned in SEC and TCFD frameworks and is only required if a company uses them.
	Disclosure of Scenario Analysis, if Used	+++	+++	+	Scenario analysis-related disclosures are mentioned by both SEC and TCFD, however this is applicable only if the company uses scenario analysis.
Governance	Disclosure of Board Oversight	+++	+++	++	Disclose the organization's governance around climate related risks and opportunities.
	Disclosure of Management Oversight	+++	+++	++	
Risk Management Disclosure	Disclosure of Processes for Identifying, Assessing, and Managing Climate-Related Risks	+++	+++	+++	The risk management disclosure requirements under the SEC closely follows the TCFD recommendations.
	Disclosure of Transition Plan	++	++	+++	The CSRD requires mandatory disclosure of transition plans whereas the transition plan disclosure under the SEC rule is conditioned on the prior adoption of a transition plan.
Financial Statement Metrics	Disclosure of the registrant's Scope 1 and Scope 2 GHG emissions	+++	+++	++	SEC and TCFD frameworks specially mention disclosure of the impact of climate related risk on the company financials. SEC guidance for registrants to closely follow TCFD framework for reporting financial metric. CSRD following SFDR under which financial market participants and financial advisor are required to disclose product information related to sustainability for both ESG and non ESG related products
	Disclosure of climate risk assessment, building strategies and opportunities to comply with net zero transition plan	++	++	++	
GHG Emission Metrics	Disclosure of the registrant's Scope 1 and Scope 2 GHG emissions.	+++	++	+	SEC and TCFD frameworks mentions about disclosure of Scope 1 and Scope 2 GHG emissions of the Registrant.
	Disclosure of Scope 3 GHG emissions, if material, or if the registrant has Scope 3 related GHG emissions reduction target or goal.	+++	++	+	SEC and TCFD frameworks mentions about disclosure of Scope 3 GHG emissions of the Registrant, if material, or if the registrant has Scope 3 related GHG emissions reduction target or goal.
Target and Goals Disclosure	Disclose established climate-related targets or goals, along with the scope, timelines, unit of measurement, and interim targets	+++	+++	+++	All three frameworks require disclosure of details of targets or goals along with the progress made related to climate risk and sustainability. However, under SEC rule it is conditional on the prior established climate risk target or goals.
	Update the disclosure each fiscal year by describing the actions taken during the year to achieve its targets or goals	++	++	+++	

Comparison of SEC disclosures with TCFD and CSRD guidance: Strategy, business model, and outlook

+ Each + indicates increasing magnitude of focus
Indicates an SEC requirement that is more stringent than either TCFD or CSRD

Below table shows **differences** across guidance from different jurisdictions:

Sub Themes	SEC	TCFD	CSDR
Disclosure of material impacts of climate-related risks on the company and resilience of its business strategy	+++	+++	+++
Disclosure of (a) Carbon Offsets or Renewable Energy Credits If Used (b) Maintained Internal Carbon Price if used	+++	++	+
Disclosure of Scenario Analysis, if Used	+++	+++	+

Themes	SEC	TCFD	CSRD

Strategy Business Model and Outlook	• Under proposed Item 1502(b) of Regulation S-K, companies would be required to disclose the impacts of the identified climate-related risks on the company's (i) business operations, (ii) products or services, (iii) suppliers and other parties in its value chain, (iv) activities to mitigate or adapt to climate-related risks, (v) expenditures for research and development, and (vi) any other significant changes or impacts along with the time horizon for each impact.
	• Disclose how these identified impacts are considered as part of its business strategy, financial planning, and capital allocation, including how any metrics or targets disclosed pursuant to the new rules relate to the company's business model or strategy.
	• Provide a narrative discussion of whether and how any of its identified climate-related risks have affected or are reasonably likely to affect the company's consolidated financial statements. The discussion should include any of the financial statement metrics disclosed.
	• If a company uses carbon offsets or renewable energy credits, it will have to disclose the roles they play in its climate-related business strategy. Additionally, if the company maintains an internal carbon price, specified information listed below must be disclosed along with how it is used to evaluate and manage climate-related risks:
	  ◦ The price in units of the registrant's reporting currency per metric ton of carbon dioxide equivalent (CO_2e);
	  ◦ The total price, including how the total price is estimated to change over time, if applicable;
	  ◦ The boundaries for measurement of overall CO_2e on which the total price is based (if different from the GHG emission organizational boundary required; and
	  ◦ The rationale for selecting the internal carbon price applied.
	• Describe the resilience of its business strategy in light of potential future changes in climate-related risks and any analytical tools that it uses, such as scenario analysis:
	  ◦ If scenario analysis is used, the company must disclose the scenarios considered, including parameters, assumptions, and analytical choices, and the projected principal financial impacts on its business strategy under each scenario, including both qualitative and quantitative information.
		• Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term:
		  ◦ a description of what they consider to be the relevant short-, medium-, and long-term time horizons
		  ◦ a description of the specific climate-related issues for each time horizon (short, medium, and long term) that could have a material financial impact on the organization
		  ◦ a description of the process(es) used to determine which risks and opportunities could have a material financial impact on the organization
		  ◦ Banks should describe significant concentrations of credit exposure to carbon-related assets and should also consider disclosing their climate-related risks in their lending activities.
		• Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning in the below areas:
		  ◦ (i) Products and services (ii) Supply chain and/or value chain (iii) Adaptation and mitigation activities (iv) Investment in research and development (v) Operations (vi) Acquisitions or divestments (vii) Access to capital
		• Describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and how these risks and opportunities are prioritized.
		• Describe the impact of climate-related issues on their financial performance (e.g., revenues, costs) and financial position (e.g., assets, liabilities)
		  ◦ If climate-related scenarios were used to inform the organization's strategy and financial planning, such scenarios should be described
		• Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
		• Where relevant, organizations should provide their internal carbon prices
			• Undertakings should be required to disclose the below information:
			• Description of the undertaking's business model and strategy, including:
			  ◦ the resilience of the undertaking's business model and strategy to risks related to sustainability matters;
			  ◦ the opportunities for the undertaking related to sustainability matters;
			  ◦ the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;
			  ◦ how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
			  ◦ how the undertaking's strategy has been implemented regarding sustainability matters;
			• Description of the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain

Comparison of SEC disclosures with TCFD and CSRD guidance: Governance

+ Each + indicates increasing magnitude of focus
Indicates an SEC requirement that is more stringent than either TCFD or CSRD

Below table shows **differences** across guidance from different jurisdictions:

Sub Themes	**SEC**	**TCFD**	**CSDR**
Disclosure of Board Oversight	+++	+++	++
Disclosure of Management Oversight	+++	+++	++

Themes	**SEC**	**TCFD**	**CSRD**
Governance	• Proposed rules are intended to provide investors with additional insight into a Board's and management's governance of climate-related risks • Climate-related issues should be subject to the same level of board oversight as other financially material matters • Robust disclosure of a boards and management's governance essential **Disclose Board Governance related items like:** • Identifying board member or board committee • Board of Directors member expertise in climate related risks and disclosure • Description of the processes and frequency related to discussion of climate related risks • Disclosure related to how the board considers climate related risks as part of its business strategy, risk management and financial oversight • Disclosure related to climate related targets or goals (e.g., net zero) and their progress **Disclose Management Governance related items like:** • Disclose management positions or committees responsible for assessing and managing climate related risks • Board of Directors member expertise in climate related risks and disclosure • Processes by which managers or management committees monitor climate related risks • Reporting to the board or board committees on climate related risks and frequency of reporting • No compensation related disclosure proposed for now	**Describe the board's oversight of climate related risks and opportunities** • Processes and frequency by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues • Whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures • How the board monitors and oversees progress against goals and targets for addressing climate-related issues **Describe management's role is assessing and managing climate related risks and opportunities** • Whether the organization has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues • A description of the associated organizational structure(s) • Processes by which management is informed about climate-related issues How management (through specific positions and/or management committees) monitors climate-related issues	**Undertakings must disclose Governance factors, including information like:** • The role of the undertaking's administrative, management and supervisory bodies, including regarding sustainability matters and their composition • Business ethics and corporate culture, including anti-corruption and anti-bribery • Political engagements of the undertaking, including its lobbying activities • The management and quality of relationships with business partners, including payment practices • The undertaking's internal control and risk management systems, including in relation to the undertaking's reporting process • A new sustainability reporting pillar should be created alongside the European Financial Reporting Advisory Group's (EFRAG) existing financial reporting pillar. The new pillar should have a robust governance structure and due process reflecting its role of developing standards

Comparison of SEC disclosures with TCFD and CSRD guidance: Risk management

+ Each **+** indicates increasing magnitude of focus
Indicates an SEC requirement that is more stringent than either TCFD or CSRD

Below table shows **differences** across guidance from different jurisdictions:

Sub Themes	**SEC**	**TCFD**	**CSDR**
Disclosure of Processes for Identifying, Assessing, and Managing Climate-Related Risks	+++	+++	+++
Disclosure of Transition Plan	++	++	+++

Themes	**SEC**	**TCFD**	**CSRD**

Risk Management	• Describe processes for identifying, assessing, and managing climate-related risks and if applicable, climate-related opportunities:
	  • Determine the relative significance of climate-related risks compared to other risks
	  • Consideration of existing or likely regulatory requirements or policies, shifts in customer or counterparty preferences, technological changes, or changes in market prices in risk identification and assessment
	  • Determine the materiality of climate-related risks
	  • Disclose risk prioritization and the decisions to mitigate, accept, or adapt to climate-related risks
	  • Determine mitigation of high-priority risks
	• Disclose whether and how the processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management system or processes:
	  • Disclose if a separate board or management committee is responsible for assessing and managing climate-related risks and how that committee interacts with the registrant's board or management committee governing risks
	• Describe climate transition plan if an institution has adopted a transition plan as part of its climate-related risk management strategy:
	  • Describe plans to mitigate or adapt to any identified physical and transition risks
	  • Disclosure of plans to achieve any identified climate-related opportunities
	  • Describing the actions taken during each fiscal year to achieve the transition plan's targets or goals
		Disclose how the company identifies, assesses, and manages climate-related risks:
		• Processes for identifying and assessing climate-related risks:
		  • Determine the relative significance of climate-related risks in relation to other risks
		  • Consideration of existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered
		  • Processes for assessing the potential size and scope of identified climate-related risks
		  • Definitions of risk terminology used or references to existing risk classification frameworks used
		• Describe how processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management
		• Describe processes for managing climate-related risks:
		  • Processes for managing climate-related risks, including the decision-making for mitigating, transferring, accepting, or controlling those risks
		  • Processes for prioritizing climate-related risks, including materiality determinations
		• Describe plans to transition to a low-carbon economy if GHG emissions reduction commitments are adopted
			• Describe principal risks related to sustainability matters, including principal dependencies on such matters and how those risks are managed
			• Report processes carried out to identify the principal risks related to sustainability matters over short-, medium- and long-term horizons
			• Describe due diligence process implemented regarding sustainability matters
			• Describe the principal actual or potential adverse impacts connected with the value chain
			• Describe any actions taken, and the result of such actions, to prevent, mitigate, or remediate actual or potential adverse impacts
			• Describe role of the administrative, management, and supervisory bodies regarding sustainability matters
			• Describe transition plans to ensure that the business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement
			• Describe targets related to sustainability matters and of the progress made towards achieving those targets
			• Describe opportunities related to sustainability matters

Comparison of SEC disclosures with TCFD and CSRD guidance: Financial statement metrics

+ Each + indicates increasing magnitude of focus
Indicates an SEC requirement that is more stringent than either TCFD or CSRD

Below table shows **differences** across guidance from different jurisdictions:

Sub Themes	SEC	TCFD	CSRD
Disclosure of climate impacted on financial statement	+++	+++	++
Disclosure of climate risk assessment, building strategies and opportunities to comply with net zero transition plan	++	++	++

Themes	SEC	TCFD	CSRD
Financial Statement Metrics	• Registrants need to disclose climate related financial statements in line with the regular financial statement for its latest fiscal year and historical years • The rule proposes similar metrics as efforts related to mitigating climate risks and related to transition activities, such as to reflect changes in revenues and costs due to emissions pricing or impacts to the balance sheet due to climate issues. Further, companies would be required to disclose the impact of climate-related risks and opportunities. • Organizations should disclose in a note to their financial statement's climate-related metrics impacting their consolidated financial statements beyond a one percent threshold. • The rules also propose similar metrics as efforts related to mitigating climate risks and related to transition activities, such as to reflect changes in revenues and costs due to emissions pricing or impacts to the balance sheet due to climate issues. • Disclosure of the impacts of any climate-related risks identified pursuant to proposed Item 1502(a)—both physical risks ("identified physical risks") and transition risks ("identified transition risks")—on any of the financial statement metrics	• Climate-related issues are material, organizations should consider describing whether and how related performance metrics are incorporated into remuneration policies • Metrics should be provided for historical periods to allow for trend analysis. Where appropriate, organizations should consider providing forward-looking metrics for the cross-industry • Organizations should describe the impact of climate-related issues on their financial performance (e.g., revenues, costs) and financial position • The proposed disclosures could provide decision-useful information and transparency to investors about the impact of the climate-related events and transition activities, including disclosed targets and goals, on such estimates and assumptions. • Organizations should describe the impact of climate-related issues on their financial performance (e.g., revenues, costs) and financial position	• In terms of Financial metric CSRD reporting is in line with SFDR – Sustainable Financial Disclosure Regulation. • Organization need to explain how the remuneration policy is consistent with the integration of sustainability risks • Description of the characteristics and objective, and of the methodologies for the assessment, measurement and monitoring. • Publish information on the policies regarding the consideration of sustainability risk in investment decisions/advice • Explain the due diligence policies regarding the PAIS of investment decision/advice

Comparison of SEC disclosures with TCFD and CSRD guidance: GHG emissions metrics disclosure (1 of 2)

+ Each + indicates increasing magnitude of focus
Indicates an SEC requirement that is more stringent than either TCFD or CSRD

Below table shows **differences** across guidance from different jurisdictions:

Sub Themes	SEC	TCFD	CSRD
Disclosure of the registrant's Scope 1 and Scope 2 GHG emissions.	+++	++	+
Disclosure of Scope 3 GHG emissions, if material, or if the registrant has Scope 3 related GHG emissions reduction target or goal.	+++	++	+

Themes	SEC	TCFD	CSRD

GHG Emission Metrics Disclosure	**GHG Emissions Metrics Disclosure - The Treatment of Scopes 1 and 2 Emissions Compared to Scope 3 Emissions**
	• Disclose GHG emissions by the end of the fiscal year, to provide investors insight on financial condition, climate-related exposure, and risk (particularly Transition Risks), to guide their investment and voting decisions
	• Measurable and comparable disclosure of GHG emissions expressed in aggregated and disaggregated by each constituent greenhouse gas
	• For all scopes of GHG emissions, the proposed rules would require a registrant to disclose GHG emissions data in gross terms, excluding any use of purchased or generated offsets
	• Separate disclosure of the registrant's Scope 1 and Scope 2 GHG emissions:
	  • Both are expressed by disaggregated constituent greenhouse gases.
	  • In the aggregate, absolute terms (excluding offsets) and in terms of intensity.
	• Disclosure of Scope 3 GHG emissions, if material, or if the registrant has Scope 3 related GHG emissions reduction target or goal:
	  • Limiting the mandatory disclosure of Scope 3 emissions to registrants in certain industries, larger registrants, or when a registrant's Scope 3 emissions comprise 40 percent of its total emissions
	  • Qualitative and Quantitative assessment by category representation (e.g., Upstream, downstream activities)
	  • In absolute terms (excluding offsets) and in terms of intensity
	• Describe challenges in collecting Scope 3 emissions data and the methodology evolving around it
	• If a registrant determines that its Scope 3 emissions are not material, and therefore not subject to disclosure, it may be useful to investors to understand the basis for that determination
	• Ability to compare Scope 3 emissions over time could be a valuable tool for investors in tracking a registrant's progress in mitigating transition and other climate-related risks, given these emissions represent the relatively large source of overall GHG emissions for many companies
		GHG Emissions Metrics Disclosure
		• Disclosure of GHG emissions independent of a materiality assessment (the process of identifying, refining, and assessing the potential environmental, social, and governance issues which could affect a business and its stakeholders)
		• Disclosure of absolute Scope 1 and Scope 2 GHG emissions independent of a materiality assessment
		• Disclosure of Scope 3 GHG emissions subject to materiality
		• Supplemental Guidance for Banks, Insurance Companies, Asset Owners and Asset Managers
		GHG Emissions Methodology
		• GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organizations and jurisdictions
		• Organizations should consider providing related, generally accepted industry-specific GHG efficiency ratios
		• In addition, where not apparent, organizations should provide a description of the methodologies used to calculate or estimate the metrics.
			Metrics Disclosure
			• Describe more detailed reporting requirements and requirements to report according to mandatory EU sustainability reporting standards
			• Aligns with the already existing **Sustainable Finance Disclosure Regulation** (SFDR) and the EU Taxonomy Regulation
			• Describe the Double materiality concept: Sustainability risk (including climate change) affecting the company + companies' impact on society and the environment
			• EU sustainability reporting standards; the draft standards would be developed by EFRAG
			• For globally relevant environmental aspects (e.g., GHG emissions) as well as locally relevant aspects (e.g., particulate matter pollution), the target should be reported in absolute terms
			• Emphasizes the need for information on GHG accounting and reduction as well as the role and quality of the compensation services

Comparison of SEC disclosures with TCFD and CSRD guidance: GHG emissions metrics disclosure (2 of 2)

+ Each + indicates increasing magnitude of focus
Indicates an SEC requirement that is more stringent than either TCFD or CSRD

Below table shows **differences** across guidance from different jurisdictions:

Sub Themes	**SEC**	**TCFD**	**CSDR**
Disclosure of the registrant's Scope 1 and Scope 2 GHG emissions.	+++	++	+
Disclosure of Scope 3 GHG emissions, if material, or if the registrant has Scope 3 related GHG emissions reduction target or goal.	+++	++	+

Themes	**SEC**	**TCFD**	**CSRD**
GHG Emission Metrics Disclosure	**Location of Disclosure** • Location data for its disclosed sources of Scope 1, Scope 2, and Scope 3 emissions, assist investors in understanding climate-related risks, likely physical risks, associated with a registrant's emissions sources **GHG Intensity** • Detailed proposal on Scope 1 and Scope 2 **GHG intensity** (ratio to express the impact of GHG emissions per unit of economic value), if required Scope 3 GHG intensity in terms of common unit (CO_2e) to facilitate comparability of disclosure **GHG Emissions Methodology** • Proposed rule would require a registrant to describe the methodology (in line with GHG Protocol), significant inputs, and significant assumptions used to calculate its GHG emissions metrics • Registrant to disclose its Scope 1 emissions and its Scope 2 emissions separately after calculating them from all sources that are included in the registrant's organizational and operational boundaries • Registrant to determine its organizational boundaries using the same scope of entities, operations, assets, and other holdings within its business organization as that used in its consolidated financial statements • Additional rules in the determination of GHG emissions and calculation of Scope 3 emissions including categories of activities, carbon footprint, approach to addressing data gaps **GHG Emissions Data for Historical Periods** • The proposed rules would require disclosure to be provided for the registrant's most recently completed fiscal year and for the historical fiscal years included in the registrant's consolidated financial statements in the applicable filing, to the extent such historical GHG emissions data is reasonably available. This would help investors analyze the trends and measure progress **The Scope 3 Emissions Disclosure Safe Harbor:** An exemption for smaller reporting companies (SRCs) from the Scope 3 emissions and delayed compliance date for Scope 3 emissions disclosure	**Location of Disclosure** • Organizations that have made GHG emissions reduction commitments, operate in jurisdictions that have made such commitments, or have agreed to meet investor expectations regarding GHG emissions reductions should describe their plans for transitioning to a low-carbon economy, which could include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition **GHG Emissions Data for Historical Periods** • GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis • Organizations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., consistent with the cross-industry climate-related metric category, where relevant, and in line with anticipated regulatory requirements or market constraints or other goals	**Recommendations for the design of sustainability reporting standards under the CSRD – Policy Paper states:** • Undertakings should account for at least all Scope 1 and Scope 2 emissions. With regards to Scope 3 emissions, only the significant categories should have to be reported • To show the relationships between GHG emission sources, the emissions should be separately reported by scope and category • The standard should specify calculation methods and refer to the GHG Protocol Corporate Standard, Scope 2 Guidance, and the Corporate Value Chain (Scope 3) Accounting and Reporting Standard • Since the GHG inventory forms the basis for an undertaking's climate change mitigation actions and achievement of individual climate targets, the GHG inventory and the achievement of net-zero targets should be subject to a prospectively higher standard of assurance

Comparison of SEC disclosures with TCFD and CSRD guidance: Targets and goals disclosures

+ Each + indicates increasing magnitude of focus
Indicates an SEC requirement that is more stringent than either TCFD or CSRD

Below table shows **differences** across guidance from different jurisdictions:

Sub Themes	SEC	TCFD	CSDR
Disclose established climate-related targets or goals, along with the scope, timelines, unit of measurement, and interim targets	+++	+++	+++
Update the disclosure each fiscal year by describing the actions taken during the year to achieve its targets or goals	++	++	+++

Themes	SEC	TCFD	CSRD

Target and Goals Disclosures	• Disclose established climate-related targets or goals, along with the description of:
	  • The unit of measurement, including whether the target is absolute or intensity-based;
	  • The defined time horizon by which the target is intended to be achieved, and whether the time horizon is consistent with one or more goals established by a climate-related treaty, law, regulation, policy, or organization;
	  • The defined baseline time period and baseline emissions against which progress will be tracked with a consistent base year set for multiple targets;
	  • Any interim targets set by the registrant; and
	  • How the registrant intends to meet its climate-related targets or goals.
	• Update the disclosure each fiscal year by describing the actions taken during the year to achieve its targets or goals.
	• Cross-reference the disclosures, when discussing climate-related impacts on its strategy, business model, and outlook or when discussing its transition plan as part of its risk management disclosure.
		Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material:
		• Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
		• Disclose Scope 1, Scope 2, GHG emissions independent of a materiality assessment, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks:
		  • GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organizations and jurisdictions.
		• Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets. In describing their targets, organizations should consider including the following:
		  • whether the target is absolute or intensity-based;
		  • time frames over which the target applies;
		  • the base year from which progress is measured; and
		  • key performance indicators to assess progress against targets.
		Metrics should be provided for historical periods to allow for trend analysis. Where appropriate, organizations should consider providing forward-looking metrics for the cross-industry, climate-related metric categories, consistent with their business or strategic planning time horizons.
			• Disclose sustainability targets set and the progress made towards achieving them.
			• Provide qualitative and quantitative information, forward-looking and retrospective information, and information that covers short, medium, and long-term time horizons
			• Report information about the company's value chain, including the company's own operations, products and services, business relationships and supply chain, where appropriate.
			• Proposed CSRD Includes mandatory audit of the information provided (limited assurance) and mandatory digital reporting in European Single Electronic Format (ESEF) format with the corresponding labeling of sustainability information (using a taxonomy yet to be developed) to ensure that reported information is accurate and reliable.
			• Report sustainability information on an annual basis which should include a 'double materiality perspective', meaning companies must report on how sustainability issues affect their business and about their own impact on people and the environment.
			• Emphasis on digitalization of sustainability information, the proposed CSRD rule would require companies to prepare their financial statements and their management report in XHTML format in accordance with the ESEF Regulation and to 'tag' their reported sustainability information according to a digital categorization system as and when specified in that Regulation. This digital categorization system would be developed together with the sustainability reporting standards.

Attestation and assurance requirements under the SEC Rule and the CSRD

SEC Rule

SEC Rule requires an attestation report covering the disclosure of Scope 1 and Scope 2 emissions and certain related disclosures about the GHG emissions attestation provider. The attestation engagement is required at a minimum, to be at the limited assurance level for fiscal years 2 and 3 after the Rule effective date and at the reasonable assurance level for fiscal year 4 and beyond.

ATTESTATION REPORT REQUIREMENTS

Form and content of the attestation report must follow the requirements set forth by the attestation standard (or standards) used by the GHG emissions attestation provider.

At a minimum, the attestation report must include the following:

- Report date
- Identification or description of the GHG emissions being reported, including the point in time or period to which the measurement or evaluation of the GHG emissions relates
- Identification of the criteria against which the GHG emissions was measured or evaluated
- Statement that identifies the level of assurance provided and describes the nature of the engagement
- Statement that identifies the attestation standard (or standards) used
- Statement that describes the registrant's responsibility to report GHG emissions
- Statement that describes the attestation provider's responsibilities in connection with the preparation of the attestation report;
- Statement that the attestation provider is independent
- Description of the work performed as a basis for the attestation provider's conclusion for a limited assurance engagement,
- Statement that describes significant inherent limitations, if any, associated with the measurement or evaluation of GHG emissions against the criteria;
- GHG emissions attestation provider's conclusion or opinion, based on the applicable attestation standard(s) used
- Signature of the attestation provider
- City and state where the attestation report has been issued

CSRD

CSRD requires a statutory auditor to perform a limited assurance engagement on a company's sustainability reporting and requires the auditor's opinion to be published along with the sustainability reports. The statutory auditor(s) or the audit firm(s) are required to present the results of the statutory audit and, where applicable, of the assurance of sustainability reporting in an audit report.

AUDIT REPORT REQUIREMENTS

- The assurance of sustainability reporting must be carried out in compliance with the assurance standards adopted by the European Commission.
- Additions made to audit report requirements in relation to sustainability reporting are as follows:
- Date and period covered by the annual or consolidated sustainability reporting
- Specification of the annual or consolidated sustainability reporting
- Identification of the sustainability reporting framework that has been applied in the audit report preparation
- Description of the scope of the assurance of sustainability reporting which shall, as a minimum, identify the assurance standards in accordance with which the assurance of sustainability reporting was conducted
- Statutory auditor's opinions and statement on sustainability reporting
- Signature of the statutory auditor and the date of signature

References

Regulator	Guidance Link
SEC	• SEC Climate-Related Disclosures Proposed Rule • SEC Climate-Related Disclosures Factsheet
CSRD	• Proposal for a Directive of The European Parliament and of The Council as regards corporate sustainability reporting • CDSB's position and red lines on the Non-Financial Reporting Directive review
TCFD	• Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures

Definitions

Term	Meaning under the SEC Rule
Large Accelerated Filer	Large Accelerated Filer is an issuer after it first meets the following conditions as of the end of its fiscal year: • The issuer had an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of $700 million or more, as of the last business day of the issuer's most recently completed second fiscal quarter • The issuer has been subject to the requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least twelve calendar months • The issuer has filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act • The issuer is not eligible to use the requirements for SRCs under the SRC revenue test.
Accelerated Filer	Accelerated Filer is an issuer after it first meets the following conditions as of the end of its fiscal year: • The issuer had an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of $75 million or more, but less than $700 million, as of the last business day of the issuer's most recently completed second fiscal quarter • The issuer has been subject to the requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least twelve calendar months • The issuer has filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act • The issuer is not eligible to use the requirements for SRCs under the SRC revenue test.
GHG Emissions Attestation Provider	A GHG emissions attestation provider means a person or a firm that has each of the following characteristics: (1) Is an expert in GHG emissions by virtue of having significant experience in measuring, analyzing, reporting, or attesting to GHG emissions. Significant experience means having sufficient competence and capabilities necessary to: (i) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and (ii) Enable the service provider to issue reports that are appropriate under the circumstances. (2) Is independent with respect to the registrant, and any of its affiliates, for whom it is providing the attestation report, during the attestation and professional engagement period. (i) A GHG emissions attestation provider is not independent if such attestation provider is not, or a reasonable investor with knowledge of all relevant facts and circumstances would conclude that such attestation provider is not, capable of exercising objective and impartial judgment on all issues encompassed within the attestation provider's engagement. (ii) In determining whether a GHG emissions attestation provider is independent, the Commission will consider: (A) Whether a relationship or the provision of a service creates a mutual or conflicting interest between the attestation provider and the registrant (or any of its affiliates), places the attestation provider in the position of attesting such attestation provider's own work, results in the attestation provider acting as management or an employee of the registrant (or any of its affiliates), or places the attestation provider in a position of being an advocate for the registrant (or any of its affiliates); and (B) All relevant circumstances, including all financial or other relationships between the attestation provider and the registrant (or any of its affiliates), and not just those relating to reports filed with the Commission. (iii) The term "affiliates" as used in this section has the meaning provided in 17 CFR 210.2-01, except that references to "audit" are deemed to be references to the attestation services provided pursuant to this section. (iv) The term "attestation and professional engagement period" as used in this section means both: (A) The period covered by the attestation report; and (B) The period of the engagement to attest to the registrant's GHG emissions or to prepare a report filed with the Commission ("the professional engagement period"). The professional engagement period begins when the GHG attestation service provider either signs an initial engagement letter (or other agreement to attest a registrant's GHG emissions) or begins attest procedures, whichever is earlier.

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