FAQ: SEC Proposed Rules to Enhance and Standardize Climate-Related Disclosures

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What are the new proposed rule changes?

On March 21, 2022, the U.S. Securities and Exchange Commission (SEC) published its proposed rule changes on the enhancement and standardization of climate-related disclosures for investors.[1]

These include disclosure of:

- Physical and transition risks and the impact on the company's business and strategy. This is to include climate risks along the company's value chain. The location of the company's properties or processes exposed to physical risks should also be disclosed.
- Governance arrangements around climate risks.
- Risk management process for managing these risks.
- Transition plans and any climate-related targets, if the company has announced these.
- Description of scenario analysis used to assess climate risks, if used.
- Scope 1 and Scope 2 emissions. Scope 3 emissions, only if material and to be phased-in (not required for smaller companies).
- Information about an internal carbon price, if used.

Why is this important?

The SEC's proposed rule is significant in many ways. It will bring the United States, the world's largest economy, into the fold of a growing list of countries who have begun to mandate climate disclosure requirements which are either fully or partially aligned with the TCFD. The SEC described this as a watershed moment for investors and financial markets as the disclosures will provide them

[1] The Enhancement and Standardization of Climate-Related Disclosures for Investors, Securities and Exchange Commission (SEC)

with consistent, comparable, and reliable information to evaluate the climate-related risks faced by companies.[2]

Who does this impact?

The disclosure requirements introduced by the proposed rule impact all SEC registrants, including both domestic and foreign private issuers with Exchange Act reporting obligations.[3] According to the SEC, there were a total of 6,960 domestic and foreign private issuers who filed in 2020.

What do investors need to know?

The SEC has said that they deem information around climate-related risks material for investors.[4] The proposed rule will look to enhance and standardize mandatory climate-related information being disclosed by investee companies. Investors will therefore have access to the data and information they need to make climate-informed decisions around their capital allocation, portfolio construction and impact of future investments.

[2] Statement from Commissioner Allison Lee, March 21, 2022

[3] All registrants with Exchange Act reporting obligations pursuant to Exchange Act Section 13(a)688 or Section 15(d)689 and companies filing a Securities Act or Exchange Act registration statement.

[4] The Enhancement and Standardization of Climate-Related Disclosures for Investors, Securities and Exchange Commission (SEC)

What climate data and metrics are required under the proposal?

In its proposed rules, the SEC is requesting companies to disclose GHG emissions metrics for the financial year. The GHG metrics include:

- Scope 1 and 2 emissions
- Scope 3 emissions, only if material
- GHG intensity
- GHG emissions for historical periods
- Methodology and assumptions

The proposed rule also requires a company to disclose certain climate-related financial statement metrics, with the objective of increasing transparency for investors to assess how climate risks will impact the company's financial position.[5] This includes:

- Financial impact metrics
- Expenditure metrics
- Financial estimates and assumptions

[5] The Enhancement and Standardization of Climate-Related Disclosures for Investors, Securities and Exchange Commission (SEC)

What is the timeline for reporting?

The SEC is proposing a phased-in approach, with the reporting date being dependent on the company's filer status. If the final rule is introduced by December 2022, the following are the compliance dates proposed:

- Large-accelerated filers: fiscal year 2023 (to be filed in 2024). Large-accelerated filers are defined by the SEC as an issuer with a public float of $700mn or more.
- Accelerated and non-accelerated filers: fiscal year 2024 (to be filed in 2025). Accelerated filers are defined by the SEC as issuers with a public float of $75mn or more, but less than $700mn.
- Smaller reporting companies: fiscal year 2025 (to be filed in 2026). Smaller reporting companies are defined as issuers with a public float of less than $250mn or had annual revenues of less than $100mn and either no public float or a public float of less than $700mn.

What about Scope 3 emissions?

All companies in scope of the proposed rule would need to disclose their Scope 1 and Scope 2 greenhouse gas emissions. These are emissions that result directly or indirectly from facilities owned or activities controlled by the company.

The SEC would require some companies to also disclose Scope 3 emissions—the emissions from upstream and downstream activities in a company's value chain. This only applies if Scope 3 emissions are material to investors or if the company had made a commitment that includes reference to Scope 3 emissions.

Reporting on Scope 3 emissions would also be phased-in according to the company's filer status and a safe harbor would apply. Smaller reporting companies would be exempt from Scope 3 disclosures.

- Large-accelerated filers: Scope 3 emissions to be disclosed from fiscal year 2024 (filed in 2025).
- Accelerated and non-accelerated filers: Scope 3 emissions to be disclosed from fiscal year 2024 (filed in 2025).

For those companies who are accelerated or large accelerated filers, they will need to include an attestation report covering the disclosure of Scope 1 and Scope 2 emissions.

How does it relate to existing frameworks such as the TCFD?

The proposed SEC rule is based in part on the framework recommended by the Taskforce for Climate-Related Financial Disclosures (TCFD). Since 2017, the TCFD has become widely accepted by issuers, investors and market participants around the world.[6]

The SEC proposal includes mandatory measures across all four of the TCFD pillars: governance, strategy, risk management, metrics and targets. Furthermore, it asks companies to disclose information on all but one of the TCFD's core cross-industry metrics (no inclusion of remuneration metrics).

What happens now?

The SEC has provided a period of public comment to gather feedback on the proposed rule. This extends to May 20, 2022 (which is 60-days after issuance of the proposed rule), or 30-days after publication of the proposed rule in the Federal Register (whichever date is later). The SEC will assess this feedback with the aim of incorporating it into the finalised rule.

[6] TCFD Status Report 2021

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