SEC's Climate Disclosure Rule Summary and Analysis for Business

With the financial impacts of climate change already present and escalating, the Securities and Exchange Commission (SEC)'s standards for public company climate-related disclosure are an essential and overdue step.

Many companies have already provided an important example and leadership on the practicality and importance of climate-related disclosure through voluntary frameworks like the TCFD. However, without market-wide standards, there are still inconsistencies in information for investors. The SEC's requirements for more specific, comparable, and decision-useful climate risk disclosures from businesses will address these voluntary framework deficiencies and enable investors to better price risk, creating a more efficient and resilient market.

Besides the benefits for investors of having more transparency to make better-informed decisions, companies benefit from better understanding the climate-related risks that can affect their financial performance and being able to benchmark against peers. Additionally, improving disclosures can lower the cost of capital because investors have less uncertainty about how to price risks.

As stakeholders continue to digest the SEC's final rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, below is an overview and how companies can support the rule. The appendix contains helpful definitions, including how materiality is framed; a comprehensive overview of key differences between the proposed and final rule; and a comparison between the SEC and other reporting standards (from China, the EU, California, and the International Sustainability Standards Board [ISSB]).

OVERVIEW

The new rule on climate-related disclosures requires publicly traded companies registered with the SEC to disclose certain climate-related information in registration statements and annual reports. This information includes:

Narrative Disclosures

- In alignment with the TCFD framework, the rule requires companies to describe material climate-related risks they face, and their governance, strategy, risk management, and targets and metrics relating to those risks.
- Climate-related risks include both physical risks (the ways increasing severe weather events or other natural conditions may impact the company) and transition risks (the ways climate-related societal shifts, such as in markets or policy, may impact the company).

Greenhouse Gas Emission Disclosures

- The rule requires large accelerated filers (LAFs) and accelerated filers (AFs) to disclose Scope 1 (direct) and Scope 2 (from energy use) greenhouse gas (GHG) emissions, if material, to facilitate investors' assessment of transition-related risks.
- In response to input from commenters, the SEC will allow such disclosures to be filed on a delayed basis (e.g., for domestic companies, any required GHG emissions disclosures may be made in the second quarter following the relevant fiscal year).

- Starting in 2029, companies required to make GHG emissions disclosures will need to include an attestation report from a qualified, independent third party affirming their calculations.

Financial Statement Disclosures

- The rule requires companies to disclose certain relevant information in their financial statements. Companies will disclose costs, expenditures, charges, and losses related to severe weather events, subject to certain thresholds, and related to carbon offsets and renewable energy credits or certificates, if material, to climate-related targets or goals.
- Companies will also need to describe material impacts, if any, of climate-related factors on the estimates and assumptions that went into preparing the financial statement.

Compliance Timeline

See Appendix for Table

- The final rule incorporates longer phase-in periods for reporting requirements than were in the initial proposal, with compliance deadlines depending on a company's filer status and the type of disclosure.
- For many of the disclosure requirements, LAFs will first need to report on fiscal year 2025, AFs on fiscal year 2026, and other filers (smaller reporting companies, emerging growth companies, and non-accelerated filers) on fiscal year 2027.
- Companies will have additional time to comply with certain disclosure requirements. For example, Scope 1 and 2 emissions disclosures are required for fiscal year 2026 for LAFs, and for fiscal year 2028 for AFs that are subject to the requirement (while other filers are not required to report on emissions at all). These extended phase-in periods provide companies with time to develop, modify, and implement any processes and controls necessary to the assessment and reporting of material climate-related risks.
- LAFs will require limited assurance for Scopes 1 and 2 emissions starting fiscal year 2029 and reasonable assurance starting fiscal year 2033
- AFs will require limited assurance for Scopes 1 and 2 emissions starting fiscal year 2031.

WHAT CAN COMPANIES DO NOW TO SUPPORT THE RULE?

While many stakeholders have welcomed the SEC rule, certain opponents are challenging it in the courts and on the Hill. Supporters of the rule therefore have important opportunities in the coming months to ensure that it is implemented successfully.

Immediate next steps for companies could include making a public statement of support, indicating that information on climate risks is financially relevant and needed for investors. Additionally, companies can highlight what they are already doing in terms of climate risk disclosure (e.g., voluntary reporting or preparing to report in the EU). Companies are well positioned to explain why this reporting is possible and necessary.

Over the coming months, companies can also consider taking the following actions:

1. **Raise your support for the SEC's rule with your trade associations and industry groups**, especially those whose trades stated opposition to the proposed rule, or those pursuing a lawsuit like the U.S. Chamber of Commerce.
2. **Make a supportive statement about the final rule.** Some key messages to consider:
    a. Highlight the reporting practice leadership your company already demonstrates.
    b. Note if you had concerns about the proposal that have been addressed.
    c. Emphasize that your business can do this and wants this standard. Companies benefit from better understanding the climate-related risks that can affect their financial performance. And improving disclosures can lower the cost of capital because investors have less uncertainty about how to price risks.
3. **Protect the rule from a Congressional Review Act vote**. Members of Congress have signaled they intend to introduce a CRA resolution against the rule which – if passed – would nullify it and prevent the SEC from developing similar standards in the future. Let members of Congress know that you support the rule.
4. **Consider sharing your perspective with the courts reviewing the rule.** Reach out if you want to discuss other opportunities to help defend the rule against challenges in court.

APPENDIX

Key Terms

Materiality: Many provisions of the final SEC rule limit disclosure obligations to "material" information. The rule's preamble explains how to assess materiality, consistent with established Supreme Court precedents:

- "A matter is material if there is a substantial likelihood that a reasonable investor would consider it important when determining whether to buy or sell securities or how to vote or such a reasonable investor would view omission of the disclosure as having significantly altered the total mix of information made available. The materiality determination is fact specific and one that requires both quantitative and qualitative considerations." (Page 105)
- Additionally, the SEC states: "materiality refers to the importance of information to investment and voting decisions about a particular company, not to the importance of the information to climate-related issues outside of those decisions." (Page 19)

A key difference in the EU climate-related disclosure standards (versus the SEC rule and the ISSB standards) is the idea of "double materiality." This concept requires companies to disclose their impact on the environment in addition to the environment's impact on the company. In contrast, under the SEC and ISSB standards, the focus is on financial materiality – i.e., climate-related risks to a company that could affect a reasonable investor's decision-making.

Types of Filers: for more in-depth definitions, see the SEC's breakdowns

- Large Accelerated Filers (LAFs): Companies with a public float of $700 million or more
- Accelerated Filers (AFs): Companies with a public float of $75 million or more, but less than $700 million
- Non-Accelerated Filers (NAFs): Companies with a public float of less than $60 million
- Smaller Reporting Companies (SRCs): Companies with a public float of less than $250 million or less than $100 million in revenue (and no public float or public float less than $700 million)
- Emerging Growth Companies (EGCs): Companies with a total annual gross revenue of less than $1.235 billion during most recently completed fiscal year

Compliance Timeline

Compliance Dates under the Final Rules[1]						
Registrant Type	**Disclosure and Financial Statement Effects Audit**		**GHG Emissions/Assurance**			**Electronic Tagging**
	All Reg. S-K and S-X disclosures, other than as noted in this table	*Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)*	*Item 1505 (Scopes 1 and 2 GHG emissions)*	*Item 1506 - Limited Assurance*	*Item 1506 - Reasonable Assurance*	*Item 1508 - Inline XBRL tagging for subpart 1500*[2]
LAFs	FYB 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033	FYB 2026
AFs (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A	FYB 2026
SRCs, EGCs, and NAFs	FYB 2027	FYB 2028	N/A	N/A	N/A	FYB 2027
	1 As used in this chart, "FYB" refers to any fiscal year beginning in the calendar year listed. 2 Financial statement disclosures under Article 14 will be required to be tagged in accordance with existing rules pertaining to the tagging of financial statements. *See* Rule 405(b)(1)(i) of Regulation S-T.					

Source: SEC Factsheet

Global Frameworks for Mandatory Climate Disclosure

Jurisdiction	Key Elements	Status	Scope of Coverage
U.S.	• Scope 1 and 2 GHG emissions, if material. • Narrative disclosures in line with TCFD's four pillars: governance, strategy, risk management, metrics/targets.	• Finalized in March 2024, with phased-in compliance beginning for LAFs on some disclosures in 2026 for FY2025.	• Companies registered with the SEC (over 7,000 entities), with smaller filers (i.e., other than LAFs) are exempt from certain requirements, as detailed in the Compliance Timeline below.
China	• Scope 1, 2 and 3. • Double materiality.	• Published in February 2024, with application expected in 2026 for FY2025.	• Large, listed entities (over 400 entities).
EU	• Scope 1, 2 and 3. • Double materiality. • Sector-agnostic standards covering environmental, social and governance topics.	• Legislation published in December 2022 (Sector agnostic standards published in December 2023). • Phased application with first reporting in 2025 for FY2024. • Upcoming: sector-specific standards.	• All larger companies operating in the EU and all listed companies (50,000 entities).
California	• Scope 1, 2, and 3. • Climate-related financial risk disclosures consistent with recommendations from the TCFD framework.	• SB 253 (the Climate Corporate Data Accountability Act) and SB 261(the Climate-Related Financial Risk Act) both signed into law October 2023. • SB 253 requires scope 1 and scope 2 disclosures by FY 2026, and scope 3 disclosures by 2027. • SB 261 requires TCFD-aligned disclosures by 2026. • Upcoming: implementing regulations.	• SB 253 covers public and private companies doing business in California with $1 billion or more in annual revenue. • SB 261 covers public and private companies doing business in California with $500 million or more in annual revenue.
IFRS/ISSB	• Scope 1, 2, and 3. • Absorbing TCFD and covering environment, social, governance, and sustainability topics.	• Finalized in 2023 with implementation beginning in 2024. • Delayed phase-in.	• Able to be adopted as mandatory by jurisdictions and voluntarily by companies.

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Proposed and Final Rule Differences

The SEC received thousands of comments from affected stakeholders and other parties on the proposed rule and made a number of modifications as a result. Key changes are highlighted below. A list of changes can also be found on Page 31 of the Final Rule Text:

Issue	Proposed Rule	Final Rule
Overall	Disclosures on climate-related risks to company and company's governance, strategy, risk management, and targets/metrics relating to those risks (similar to TCFD). Disclosures on Scope 1 and 2 GHG emissions with independent auditing, and Scope 3 if material or if part of a target. Financial statement metrics and disclosures on climate-related impacts and expenditures.	Less prescriptive (i.e., more flexible) disclosures on climate-related risks to company and company's governance, strategy, risk management, and targets/metrics relating to those risks (similar to TCFD). For example, eliminated the proposed requirement to describe board members' climate expertise. Disclosures on Scope 1 and 2 GHG emissions for larger companies, if material, with independent auditing (no Scope 3). Scaled-back set of financial statement metrics and disclosures on climate-related impacts and expenditures. For example, eliminated the proposed requirement to disclose climate-related impacts above a 1% threshold on each line item of the financial statement.
Materiality	Materiality limitations for certain requirements – i.e., disclosure only required if the company deems the information material to investors – such as for Scope 3 GHG emissions disclosures and some of the TCFD-aligned disclosures.	Materiality limitations specified for most requirements, including Scope 1 and 2 GHG emissions disclosures (no Scope 3) and TCFD-aligned disclosures.
GHG Emissions Disclosures	Scope 1 and 2 GHG emissions, with independent auditing, and Scope 3 if material or if part of a target. Smaller reporting companies exempted from auditing and Scope 3 requirements.	Scope 1 and 2 GHG emissions disclosures, with independent auditing, required only for LAFs and AFs, and only when those emissions are material (no Scope 3 requirements). Option to provide this disclosure on a delayed basis.
Safe Harbors	Safe harbor from liability for Scope 3 GHG emissions disclosures and for forward-looking statements pursuant to the Private Securities Litigation Reform Act.	Safe harbor from private liability for forward-looking statements pursuant to the Private Securities Litigation Reform Act, and affirmation that forward-looking disclosures pertaining to transition plans, scenario analysis, the use of an internal carbon price, and targets and goals fall within this protection (no Scope 3 GHG emissions disclosure requirements).
Implementation Timeline	Phased in by type of disclosure and company size, with first disclosures from LAFs for FY2023, and full implementation by FY2028.	Phased in by type of disclosure and company size, with first disclosures from LAFs for FY2025, and full implementation by FY2033. More gradual phase-in and more exemptions for small filers than in proposal.

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