

## BRIEFING

# SEC Climate

# Disclosure Rule

## *US Securities and Exchange Commission Climate Risk Disclosure Rule*

### Overview:

The Enhancement and Standardization of Climate-Related Disclosures for Investors rule proposed by the US Securities and Exchange Commission (SEC) would — if finalized — compel public companies to provide consistent, comparable, and reliable information to investors on their climate-related risks. It would require companies to include a number of climate risk and opportunity disclosures in their registration statements and annual reports as well as certain climate-related metrics in their audited financial statements. The disclosures are modeled, in part, on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Greenhouse Gas (GHG) Protocol.

### History:

The SEC is the primary regulator of public financial markets in the US. It is responsible for ensuring companies provide financial and other significant information on securities offered for public sale.

The regulator first took steps to ensure disclosure of environmental risk information by companies in the 1970s, and most recently provided guidance on climate change-related disclosure in 2010.

On March 21, 2022, the SEC released a proposed climate risk disclosure rule to enhance and standardize climate-related disclosures. The proposal was open to public consultation and received over 5,000 comments. The SEC is preparing a final version of the rule, which it has indicated will be published in October 2023.

### Objectives:

The rule aims to provide investors with consistent, comparable, and reliable information on public companies' climate-related risks to aid their investment decisions.



## Scope:

The rule would apply to all US-based and foreign issuer companies listed on US exchanges, totaling nearly 7,000 companies based on the SEC's 2020 estimates. The disclosure requirements would be phased in over time by company type and size, starting with large accelerated filers and followed by accelerated filers, non-accelerated filers, and smaller reporting companies (see following page).

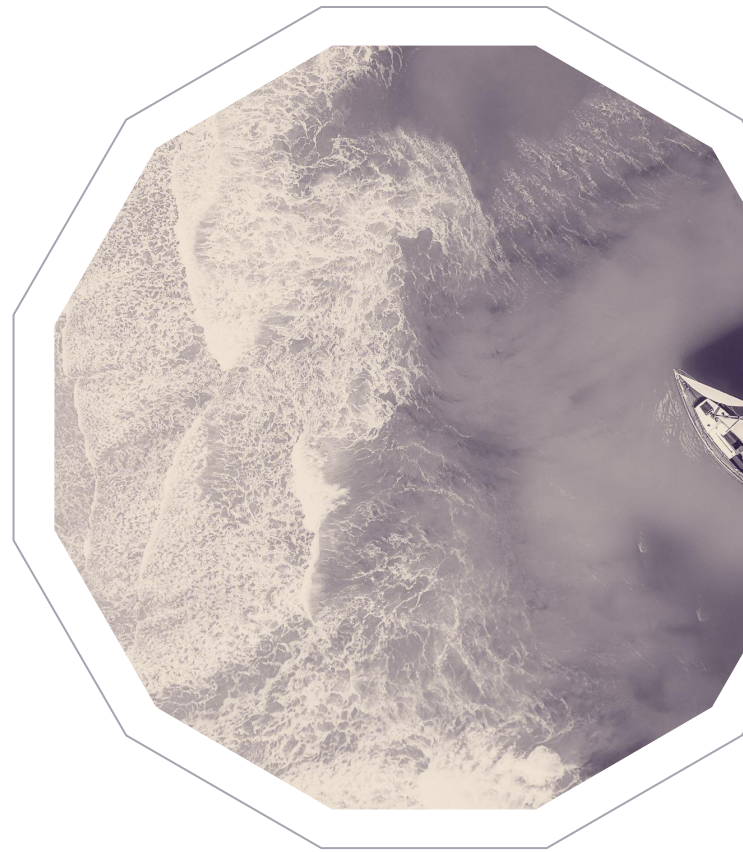
## Structure:

The proposed rule includes various disclosure requirements related to:

- Oversight and governance of climate-related risks by a company's board of directors and management.
- Effects and material impacts of climate risks on a company's business over the short, medium, and long term.
- How climate-related risks may alter a company's strategy, business model, and outlook.
- A company's process for identifying, assessing, and managing climate-related risks and whether any such process is integrated into its overall risk management process.
- If a company has adopted a climate transition plan, a description of the plan, including the relevant metrics and targets used to identify and manage any physical and transition risks.
- If a company uses climate scenario analysis, a description of the scenarios used, along with the inputs, assumptions, choices made, and estimated potential financial impacts.
- If a company uses an internal carbon price, details on this price and how it is set.
- The impact of climate transition and physical risk on the line items of a company's consolidated financial statements, along with the projections and assumptions used in the financial statements.
- Scope 1 and 2 greenhouse gas emissions, disclosed by disaggregated constituent greenhouse gases and in the aggregate, not including offsets, and also in terms of intensity.
- Scope 3 emissions if material, or if the company has set a Scope 3 goal.
- If the company has publicly set climate targets or goals, information on: the scope of activities and emissions factored into the targets/goals, the time horizon over which the targets/goals are to be achieved, interim targets/goals, how the company plans to meet its targets/goals, annually updated data showing how the company is making progress toward its targets/goals, information on any carbon offsets or renewable energy certificates used to achieve targets/goals.

Companies would need to include these disclosures in their annual reports and registration statements, with some disclosures presented in a separate, appropriately captioned section and others in a note in the company's audited financial statements.

The proposed rule also includes provisions requiring large accelerated filers and accelerated filers companies to provide third-party assurance for their Scope 1 and 2 GHG disclosures.



# SEC Company Categorization

Categorization	Public Float	Annual Revenues
Large Accelerated Filer	\$700 million or more	N/A
Accelerated Filer	\$250 million to less than \$700 million	\$100 million or more
Non-Accelerated Filer	\$75 million to less than \$700 million	Less than \$100 million
Smaller Reporting Company and Accelerated Filer	\$75 million to less than \$250 million	\$100 million or more
Smaller Reporting Company	Less than \$75 million	N/A

Source: SEC, [Accelerated Filer and Large Accelerated Filer Definitions](#)

## Application:

The final SEC rule is pending. If the rule had been adopted in December 2022, the SEC said it would have required large accelerated filers to include their disclosures (except for Scope 3 emissions) in their 2024 filings. Scope 3 disclosures would have followed in reports filed in 2025 onward.

Until the final rule is published, it is unclear in what years the disclosure requirements will apply.

## Next Steps:

Companies should identify how the SEC climate risk disclosure rule goes beyond their current voluntary climate and sustainability reporting practices and ensure reporting processes and procedures are sufficient to provide a reasonable level of assurance of the quality of reporting.

