

FACTSHEET ON SEC'S FINAL RULE ON CLIMATE-RELATED FINANCIAL DISCLOSURES



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On March 6th, 2024, the Securities and Exchange Commission (SEC) *released* the final version of its long-awaited climate risk disclosure rule. The rule, *first proposed in 2022*, requires certain climate-related risk disclosures from publicly-traded U.S. companies in annual reports and registration statements. The Center for Climate and Energy Solutions (C2ES) *engaged* substantially with the SEC and companies in its *Business Environmental Leadership Council* (BELC) over the course of the rule's development. Despite the significant changes to the originally proposed rule, C2ES supports the final rule, as it will help create a more standardized and consistent approach for companies to disclose how they are managing their climate-related risks.

A changing climate affects how businesses operate—physical and transition risks drive challenges and the low-carbon transition presents opportunities as companies shift to a clean energy future. Improved disclosure of climate-related risks will protect investors by ensuring they have consistent, comparable, and decision-useful information on which companies are best prepared to adapt to the physical impacts of climate change and which are best insulated against any regulatory and market-based transition risks.

While the final rule is an important step forward, it is narrower in scope than the proposed rule and where most of the disclosures are now required if deemed material by companies. Given the subjectivity of assessing materiality, additional guidance will likely be needed to ensure greater clarity and consistency in reporting across sectors to ensure the maximum benefit to investors as they allocate capital and assess risk.

To help stakeholders identify and track the SEC's approach to key topics included in the rule, C2ES has prepared the following rapid analysis. This analysis includes a short summary of the substance of the original proposal, C2ES's feedback on the original proposal, and if/how the final rule changed.

RULE IMPLEMENTATION

The proposal required SEC registrants to file climate risk disclosures in registration forms and annual reports, with phased-in timing for compliance. C2ES supported the proposal and recommended that the compliance timeline be extended to allow small companies adequate time to catch up to larger companies. The final rule maintains the phased-in approach to filings, with additional compliance periods for material expenditures, greenhouse gas emissions disclosures, and assurance requirements.

SAFE HARBORS

The proposal included safe harbor protections for forward-looking statements made under existing statutes and additional protections for Scope 3 disclosures. C2ES supported the additional Scope 3 safe harbor and encouraged further liability protections to ensure that companies feel comfortable engaging in and disclosing ambitious climate efforts. The final rule removes Scope 3 disclosure requirements and extends an additional safe harbor for certain forward-looking disclosures including scenario analysis, transition plans, and climate targets and goals.

ASSURANCE AND ATTESTATION

The proposal required companies to undertake attestation and assurance for Scope 1 and 2 greenhouse gas data, initially at the limited assurance level and then transitioning to the reasonable assurance level. C2ES supported the overall need for assurance of greenhouse gas information and recommended the SEC assess the utility of requiring reasonable assurance after the rule had been implemented. The final rule maintains the attestation requirement for companies greenhouse gas disclosures (for large accelerated and accelerated filers), provides an extended compliance period for the transition from limited to reasonable assurance for the largest companies, and does not require attestation from smaller reporting companies (including emerging growth companies and non-accelerated filers).

GREENHOUSE GAS DATA

The proposal mandated the disclosure of greenhouse gas data for all covered registrants, including Scope 1, 2, and in some cases, Scope 3 data. C2ES supported this proposal and recommended additional flexibility for Scope 3 disclosure, adjusting the overall timing of required greenhouse gas disclosures, and allowing registrants to align the timing of greenhouse gas inventory disclosure with calendar year reporting, as thousands of companies currently report. The final rule eliminates Scope 3 disclosure and only requires Scope 1 and 2 greenhouse gas disclosures from large accelerated and accelerated filers when they are deemed material, exempting smaller companies from greenhouse gas reporting. The final rule also allows more flexibility in how greenhouse gas disclosures can be reported (e.g., in Q2 filings or as 10-k amendments).

TRANSITION PLANS

The proposal required companies to disclose transition plans if companies adopt them. C2ES supported this measure and emphasized the need to explicitly provide safe harbors to avoid a chilling effect where companies would choose not to adopt transition plans to avoid legal risk. The final rule maintains the requirement to disclose transition plans on an ongoing basis and provides an additional safe harbor for transition plan disclosures.

RISK MANAGEMENT

The proposal required disclosure of both a company's material climate-related risks, including physical and transition risks, and the underlying climate risk management process. C2ES supported this proposal with caveats to reduce reporting burdens and suggested the SEC provide additional clarification and guidance on the definition of materiality. The final rule maintains the requirement to disclose material climate risks and a registrant's risk management process, while adding streamlined qualitative and quantitative information regarding the impacts of those risks.

GOALS AND TARGETS

The proposal required disclosure of a company's climate-related goals and targets, and additional information on the substance of those goals. C2ES supported the proposal overall but noted feedback from companies with existing climate goals that the extent of the disclosure requirements could dampen goal-setting. C2ES suggested additional safe harbors to encourage corporate goal-setting and disclosure. The final rule maintains the requirement to disclose the use of climate goals and targets, and provides an additional safe harbor for goal and target disclosures.

GOVERNANCE AND STRATEGY

The proposal required disclosure of how climate risks impact a registrant's business strategy and the corporate governance process for overseeing those risks. C2ES supported the proposal and offered recommendations to strengthen the rule while reducing competitive concerns from companies. The final rule maintains the requirement to disclose a registrant's climate risk governance and strategy, including, where relevant, board engagement, while removing the requirement that registrants identify specific board member climate expertise.

CARBON OFFSETS & INTERNAL CARBON PRICE

The proposal required disclosure of both a registrant's use of carbon offsets and renewable energy certificates (RECs) and information on a company's use of internal carbon prices. At a high level, C2ES supported carbon offset and carbon price disclosure but did not support requiring the disclosure of certain carbon price details due to competitive concerns. The final rule maintains the requirement to disclose the use of carbon offsets and RECs in the context of a registrant's goals and targets. The rule also requires disclosure of internal carbon pricing, including the price per metric ton in carbon dioxide equivalent and total price used. The rule provides an additional safe harbor for carbon price disclosures.

SCENARIO ANALYSIS

Like the approach taken for carbon offsets and internal carbon prices, the proposal required certain scenario analysis disclosures if such analysis is used by a registrant. C2ES supported the proposal to require scenario analysis disclosure but did not support the requirement to disclose resulting quantitative financial outputs, recommending instead that companies disclose choices made in their scenario analysis in a flexible, narrative form. The final rule maintains the requirement that the use of scenario analysis be disclosed and allows for more flexible summary disclosures of scenario assumption and results. The rule also extends an additional safe harbor for scenario analysis disclosures.

FINANCIAL STATEMENT REPORTING

The proposal required disclosure of certain climate-related impact metrics in a registrant's financial statements. Due to a lack of clarity regarding the requirements and other concerns from stakeholders, C2ES did not support the proposal as written. Instead, C2ES offered additional feedback and an alternative proposal informed by companies in C2ES's BELC *in a separate comment*. The final rule removes the impact metric disclosure requirement and instead requires a narrower set of climate-related expenditure and cost information (e.g., spending on extreme weather, carbon offsets, changes to assumptions) in a note to the financial statements under Reg S-X.

Additional C2ES Resources

Foresight is 20/20: Reporting Climate-related Risks and Opportunities

<https://www.c2es.org/content/foresight-is-20-20-reporting-climate-related-risks-and-opportunities/>



The Center for Climate and Energy Solutions (C2ES) is an independent, nonpartisan, nonprofit organization working to secure a safe and stable climate by accelerating the global transition to net-zero greenhouse gas emissions and a thriving, just, and resilient economy.