BUSINESS

TRACKING THE EVOLUTION OF THE SEC'S CLIMATE RISK DISCLOSURE RULE

CENTER FOR CLIMATE AND ENERGY SOLUTIONS

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INTRODUCTION

In March 2022, the U.S. Securities and Exchange Commission (SEC) *proposed* The Enhancement and Standardization of Climate-Related Disclosures for Investors, a rule requiring the disclosure of climate-related risks by SEC registrants in their regular agency filings.[1] By proposing the rule, the United States joins an emerging set of regulators around the world seeking to support investors as they allocate capital and manage financial risks through consistent and comparable climate-related risk disclosure. The Center for Climate and Energy Solutions (C2ES) participated in public comment periods throughout the development of the SEC's rule, including submitting a *response* to the initial agency Request for Information in 2021 and to the proposed rule *in 2022*.[2] C2ES also offered an alternative option to one of the proposed aspects of financial reporting in *separate comments* in early 2023.[3] After these comment periods, the SEC released *the final version* of the rule on March 6th, 2024.[4] Immediately following the rule's release, C2ES prepared *a fact sheet* highlighting the rule's key sections.[5]

C2ES welcomes the final SEC rule, which will play an important role in helping companies and investors navigate the clean energy transition by identifying climate risks, how companies are managing these risks, and how business models are evolving to capture climate opportunities and otherwise thrive in a low-carbon, more climate-resilient economy. In particular, the rule will help investors understand how companies view their climate risks over the short and long term, as well as if and how companies are taking action to respond to climate risks at a financial and strategic level. C2ES is also pleased to see the SEC include many recommendations from comments we provided in the final rule, including additional safe harbors, extended compliance timelines, more streamlined and clarified financial metrics, and more flexibility in key areas.

While the final rule is a critical step towards protecting capital market investors and aligning the United States with other governments' regulatory measures on corporate climate disclosure, key areas remain to be strengthened. The rollback of greenhouse gas emissions requirements and the subjectiveness of the materiality standard for emissions reporting now relied on throughout the rule has the potential to leave materiality considerations open to interpretation. As such, further guidance may need to be developed. Additionally, the reduced prescriptiveness of other provisions—for example, the specifics of scenario analysis and climate risk governance—allows for flexibility and reduces reporting burdens, but also raises the likelihood that stakeholders might require additional clarification in implementation.

These changes mean that complementary industry-specific efforts that engage investors, regulators, and companies will be needed to help elicit the most decision-useful information from disclosures. The rule also opens the door for additional implementation work from the broader reporting and financial ecosystem. For instance, the ongoing development and oversight of auditing and assurance standards will be a key component going forward. For companies subject to other climate disclosure rules like those in California or outside the

United States, such as the EU's Corporate Sustainability Reporting Directive, the SEC will need to expand upon substituted compliance considerations to help companies comply efficiently across regulatory regimes. C2ES looks forward to proactively engaging on these important issues with companies and agencies throughout the rule's implementation.

UNDERSTANDING THE FINAL RULE

To help stakeholders further understand the specifics of the final SEC rule, the key changes throughout the development of the rule, and C2ES's perspective on the overall outcomes, we have prepared this brief. Here, we expand upon the specifics of the key topics identified in our *factsheet*, recap the development of C2ES's recommendations to the agency throughout the rulemaking process, and offer next steps based on C2ES's perspective on individual components of the final rule.

RULE IMPLEMENTATION

Summary of Original Rule Proposal

The proposal required public domestic and foreign private issuers to disclose certain climate information in registration statements and annual reports under the Securities Act and the Exchange Act. This included disclosures in annual forms 10-K, 20-F, and 40-F, as well as 10-Q and 6-k's for any material changes.

The SEC proposal took a phased-in approach for compliance timing based on the size of the registrant and the type of disclosure. *Large accelerated filers* would comply with the rule by disclosing starting the fiscal year following the rule's adoption.[6] The proposal assumed an adoption date of December 2022, with initial disclosures required for fiscal year 2023, to be filed in 2024. Scope 3 disclosures would be phased in for the following year (i.e., for FY 2024).

Accelerated and non-accelerated filers would comply with the rule by initially filing in FY 2024, with Scope 3 disclosure required in FY 2025.[7] Smaller reporting companies, which the SEC exempts from Scope 3 disclosure, would disclose starting in FY 2025.

Summary of C2ES Comments

C2ES supported the overall proposal to require disclosures in regular filings using a phased-in approach.

C2ES recommended that the SEC extend the compliance date for an additional year across all companies, but particularly for smaller public companies. At the time of the proposed rule, C2ES suggested that smaller companies could begin disclosing in FY 2026. This change would have provided smaller companies time to catch up to larger issuers who might be better prepared for disclosure.

Summary of Final Rule

The final rule maintains the requirement that domestic and foreign private issuers file certain climate-related risk disclosures in annual reports and registration statements under the Securities Act and Exchange Act. As in the proposed rule, this includes annual reports and registration forms. The final rule removes the requirement to report material changes to climate risk disclosures in quarterly filings.

While the final rule maintains a phased-in compliance approach, the implementation deadlines are staggered and extended:

- Large accelerated filers must begin disclosing in FY 2025, with expenditure information and any greenhouse gas disclosure starting in 2026.
- Accelerated filers must begin disclosing in FY 2026, with certain financial reporting and any greenhouse gas disclosure starting in FY 2027 and 2028.
- Non-accelerated filers, smaller reporting companies, and emerging growth companies must begin disclosing in FY 2027, with certain financial disclosures starting in FY 2028. These filers are exempt from greenhouse gas disclosure requirements.

C2ES Response to the Final Rule

C2ES welcomes the final rule's continued requirement that certain climate risk disclosures be made in regular SEC filings, including annual reports and registration statements. This will allow investors consistent, standardized access to climate-related information that helps investors allocate capital and assess their risks.

C2ES is pleased to see the SEC extend the phased-in compliance timelines, which C2ES recommended to the agency in our comments. This will allow time for smaller companies to catch up to larger firms. C2ES supports several aspects of the final rule, as outlined in the sections below, especially as it pertains to safe harbors on forward-looking statements on scenarios analysis and the streamlining of financial metrics.

While C2ES supports the many changes to the final rule since it was proposed, as noted above, the requirements for when Scopes 1 and 2 emissions should be reported—based on a subjective materiality assessment—leaves open room for interpretation, therefore necessitating additional guidance and clarity for registrants.

SAFE HARBORS

Summary of Original Rule Proposal

The SEC proposal included some safe harbor provisions for climate-related disclosures. For forward-looking statements that address climate risk, such as scenario analysis or transition plans, the SEC noted that existing safe harbors under the Private Securities Litigation Reform Act would apply. The SEC also provided a specific safe harbor carve-out for Scope 3 emissions disclosures.

Summary of C2ES Comments

C2ES supported the proposal's specific safe harbor for Scope 3 disclosure. To ensure maximum uptake of corporate climate action, C2ES also recommended the following:

- The SEC should place climate-related governance and strategy disclosures under existing safe harbors.
- The SEC should provide further liability protection for all climate-related forward-looking information, including transition plans, climate targets, and scenario analysis. The purpose of these additional safe harbors would be to protect the registrant from both private right of action and SEC enforcement, which would help encourage ambitious action from registrants.

Summary of Final Rule

The final rule extends an additional safe harbor for certain forward-looking climate-related disclosures. These include:

- transition plans
- scenario analysis
- internal carbon pricing
- targets and goals.

For disclosures related to these items, the SEC extends an explicit Public Securities Litigation Reform Act (PSLRA) safe harbor.

C2ES Response to the Final Rule

The final rule does not include the full scope of protections that C2ES recommended (i.e., the rule excludes governance and strategy considerations from the safe harbor). However, C2ES is pleased to see the agency extend an additional safe harbor against private action for certain important forward-looking disclosures, many of which we identified in our comments. As discussed in C2ES's original comments to the SEC, these protections can help broaden corporate support for climate action.

GREENHOUSE GAS DATA

Summary of Original Rule Proposal

The SEC proposal required disclosure of Scope 1 and 2 greenhouse gas data for the most recent fiscal year. Scope 3 data would also be required to be disclosed where material or when included in a company's climate goal or target. The initial proposal required greenhouse gas disclosures be reported disaggregated by gases and in the aggregate by scope. Greenhouse gas disclosures would also need to be reported as gross numbers, independent of any offsets or renewable energy credits (RECs) used.

Summary of C2ES Comments

C2ES supported this requirement and noted that, in general, more flexibility should be given for Scope 3 disclosures due to existing data constraints and concerns with data quality. For instance, C2ES recommended that Scope 3 disclosures should not be disaggregated by greenhouse gas.

C2ES also recommended the SEC allow registrants to align the timing of greenhouse inventory disclosure with calendar year reporting instead of fiscal year reporting. This is the current market best practice and would reduce the implementation burden for companies.

Summary of Final Rule

The final SEC rule removes the requirement for reporting companies to disclose Scope 3 emissions. It now also requires that Scope 1 and 2 data be disclosed only if deemed material. Scope 1 and 2 disclosure is also only required from large accelerated and accelerated filers. Greenhouse gas disclosures no longer need to be disaggregated by gas, unless an individual gas (e.g., methane) is material.

The final rule allows for additional flexibility in greenhouse gas reporting, with companies able to file disclosures in Q-2 reports or as an annual report amendment. Companies may choose the standard they report against (e.g., GHG Protocol, ISO), but must briefly describe the method used.

C2ES Response to the Final Rule

C2ES welcomes the final rule's continued focus on greenhouse gas emissions disclosure, which is a critical tool for companies to measure and assess their transition risk. C2ES is also pleased to see the SEC extend additional flexibility to companies in compliance timing, a key recommendation in our comments to the SEC.

C2ES acknowledges that without Scope 3 emissions and an objective requirement to disclose Scopes 1 and 2, investors may struggle to obtain a full, consistent, and comparable understanding of a registrant's climate risks. However, current best practices across the market might alleviate these concerns. Many leading companies are already reporting Scope 3 emissions; additionally, Scope 1 and 2 emissions can make up a significant portion of heavy industry emissions that should be disclosed to investors.

Given the importance of Scope 1 and 2 disclosures to many industries, C2ES recommends that the SEC offers additional guidance for when investors might expect Scope 1 and 2 emissions to be material. Here, additional collaboration with companies to determine best practices for greenhouse gas disclosure at an industry-specific level may be needed. Going forward, the SEC should consider providing additional resources for specific sectors to refer to when navigating materiality considerations, in partnership with relevant agencies with input from external stakeholder groups.

ASSURANCE AND ATTESTATION

Summary of Original Rule Proposal

The SEC rule proposal included a requirement for phased-in assurance of Scope 1 and 2 greenhouse gas data for large accelerated and accelerated filers. These requirements would come online one year following the compliance date for greenhouse gas disclosures and would be phased in, starting initially with limited assurance before transitioning to reasonable assurance.

Registrants would also be required to obtain an attestation report for Scope 1 and 2 greenhouse gas data from providers that meet specific independence and expertise criteria. Additionally, financial statement disclosures would be subject to existing audit requirements.

Summary of C2ES Comments

C2ES supported the SEC's attestation and assurance proposals, noting that many companies are already obtaining limited assurance for greenhouse gas inventories. C2ES recommended the SEC assess the need for reasonable assurance three to five years following the rule's implementation since company feedback indicated that an additional level of assurance might provide limited benefits and higher cost.

Summary of Final Rule

The final SEC rule maintains the requirement that companies obtain assurance and attestation over greenhouse gas data, and it extends the phase-in period for obtaining assurance and transitioning to reasonable assurance. Specifically, large accelerated filers are required to obtain assurance for Scope 1 and 2 data at the limited level in 2026, transitioning to reasonable assurance in 2033. On the other hand, accelerated filers are required to obtain assurance for Scope 1 and 2 data at the limited assurance level in 2031 and are not required to transition to the reasonable assurance level.

The final rule includes flexibility in what standards can be used for attestation and maintains the independence requirements for attestation providers.

C2ES Response to the Final Rule

C2ES welcomes the final rule's continued assurance requirements and recognizes the importance of obtaining assurance to maintain trust in greenhouse gas data. This is a best practice that many companies are already engaged in.

C2ES is pleased to see the SEC's extended timeline for obtaining reasonable assurance, a recommendation in our initial comments, as reasonable assurance can result in additional costs to companies.

C2ES continues to recommend that the SEC engage with domestic auditing standard-setters and practitioners to further develop best practices and industry-wide uptake during the rule's implementation.

TRANSITION PLANS

Summary of Original Rule Proposal

The SEC proposal defined a "transition plan" as a strategy and implementation plan adopted by companies to reduce their climate-related risks. The proposal required disclosure of a company's transition plan if a transition plan has been adopted. These disclosures would include:

- a description of the plan, any metrics and targets used, and how the registrant plans to adapt to or mitigate identified physical and transition risks
- annual updates on progress made towards a company's transition plan
- optional disclosure of identified climate-related opportunities.

Summary of C2ES comments

C2ES supported the requirement to disclose company transition plans and suggested the commission retitle this requirement as "Transition and Adaptation (or Resilience) Plans," since the use of transition plans for physical risk management may not be as familiar to market participants. C2ES also supported the requirement to provide regular updates on transition plans and suggested that these updates occur every two to three years to reflect the practical timing considerations of corporate planning.

Lastly, C2ES suggested that the SEC be explicit that similar safe harbors would apply to the underlying inputs and outputs of transition plans as would apply to scenario analysis results. These safe harbors could help avoid a chilling effect on corporate transition plan adoption, since plans may change as business strategies and needs evolve.

Summary of Final Rule

The final SEC rule maintains the requirement that companies disclose their transition plans. The final rule narrows the disclosure requirement only to the use of a transition plan if used to manage a material transition risk. It also removes the explicit focus on physical risk. Registrants will still be required to update any transition plan disclosure on an annual basis.

Registrants will now be required to both qualitatively and quantitatively disclose material expenditures and impacts to financial estimates and assumptions that are a result of a disclosed transition plan. These disclosures will be phased in to allow for data collection time.

The final rule also extends an additional safe harbor to transition plan disclosures.

C2ES Response to the Final Rule

C2ES welcomes the continued inclusion of transition plan disclosures, which are a key tool for companies in managing climate risks and opportunities. C2ES is pleased to see the SEC provide a specific safe harbor that places transition plan disclosures under the Public Securities Litigation Reforms Act, a key recommendation in our comments. These safe harbors can facilitate a broader uptake of transition planning among companies.

C2ES recognizes that companies may require additional guidance when assessing the materiality of climate risks, including the need for subsequent transition plan disclosure, and looks forward to continued engagement with the SEC and companies to support rule implementation.

RISK MANAGEMENT

Summary of Original Rule Proposal

The proposed rule required companies to disclose any identified material climate-related risks that are currently or might in the future impact their financial statements, business operations, and value chains over different time horizons. The proposal covered both transition risks and physical risks. For physical risks, companies were required to disclose additional location information at the ZIP code level. Companies also would have the option to disclose any climate-related opportunities that they identified.

The proposed rule also required disclosure of a company's process for identifying, assessing, and managing its climate-related risks.

Summary of C2ES Comments

C2ES supported the requirement to disclose a company's material climate-related risks and the underlying risk management process for identifying climate risks.

To support consistency and comparability across disclosures, C2ES recommended the SEC provide additional guidance on how the Commission defines "climate-related" in the context of overall risk management. C2ES also recommended the SEC provide clarification on how companies should assess materiality in the specific context of climate risks.

C2ES further suggested that location information be reported at the regional level to avoid reporting burdens or security concerns.

Summary of Final Rule

The final SEC rule maintains the requirement that registrants disclose their material physical and transition climate risks, underlying risk management process, and if and how climate risks are incorporated into their overall risk management systems. The final rule reduces prescriptiveness and streamlines the original proposal along key dimensions:

Registrants are no longer required to disclose physical risks at the zip-code level, instead, they can choose the relevant geographical location.

Value chain reporting is limited to material risks to a registrant's business, operations, and financial condition.

Risk management disclosure is limited to material risks, and several perspective requirements, like discussing the relative significance of identified climate risks, have been removed.

The final rule also modifies the proposed timescale definitions to "short" and "long" term, consistent with how these terms are currently used in reporting. It also extends the compliance timeline for disclosures related to expenditures and impacts to financial statement assumptions that arise from climate risk management.

C2ES Response to the Final Rule

C2ES welcomes the final rule's requirements to disclose material climate risks and a registrant's risk management process. C2ES also appreciates the clarification that only the impacts of material risks be disclosed and that physical risks be reported from the relevant geographical location.

C2ES is pleased to see the additional flexibility given to physical risk reporting, as many companies are at an earlier stage of assessing physical risk, with little standardization of approaches. We anticipate that implementing risk disclosures in line with the SEC's interpretation of materiality and definitions of climate risk will require additional engagement and support for companies.

GOALS AND TARGETS

Summary of Original Rule Proposal

The proposed rule required companies that have set a climate-related goal or target to disclose that goal. Companies were also required to disclose other applicable information about their climate goals, such as scope, unit of measurement, time horizon, and interim targets. They were also required to disclose how they intend to meet their disclosed goal.

The proposed rule required goal disclosures to be updated annually, along with data and information on progress made toward the achievement of that goal.

Summary of C2ES Comments

C2ES supported the proposal to require companies to disclose climate-related goals and targets they have set.

Based on company feedback, C2ES noted that the additional goal information the Commission contemplated would likely be burdensome, creating a chilling effect on goal setting or setting more ambitious goals. To mitigate the risk of a chilling effect, C2ES suggested that goals and targets be placed under a specific safe harbor.

Summary of Final Rule

The final SEC rule maintains the requirement that companies disclose their climate-related goals and targets, but conditions these disclosures on those goals that have a material impact on a registrant's business, results of operations, or financial condition.

The final rule also streamlines the additional goal/target information that is required to be disclosed, with items like time horizon, scope, and unit of measurement now only required if they contribute to understanding a material impact.

Lastly, the rule includes a requirement to qualitatively and quantitatively disclose material expenditures and impacts on financial estimates and assumptions that arise as a result of disclosed goals. Similar to the transition plan and risk expenditure requirements, these disclosures will be phased in.

C2ES Response to The Final Rule

C2ES welcomes the rule's continued requirement to disclose climate targets and goals, as well as the flexible reporting requirements on material financial impacts. C2ES is also pleased to see the SEC require less prescriptive disclosures for additional information related to a company's targets or goals, as we expressed concerns with the potential burden of these requirements to the SEC in our comments.

GOVERNANCE AND STRATEGY

Summary of Original Rule Proposal

The proposed rule required disclosure of the impacts that a company's identified climate risks have on its overall business strategy, business model, and outlook. This included any changes to financial planning, products, or capital allocation in reaction to the identified climate risks. Strategy impacts would be disclosed along short-, medium-, and long-term time horizons.

The proposed rule also required disclosure of how a company's board and management oversee its climate-related risks and/or climate goals. This included specific information regarding the governance process—for instance, the cadence of meetings and committees through which the board and management address climate issues.

Summary of C2ES Comments

C2ES supported the overall proposal to require disclosure of how climate risks impact business strategy and governance. C2ES suggested additional strategy disclosures, including a standardized template that could simplify reporting for investors and companies. C2ES also recommended that the SEC require strategy disclosures at a narrative, instead of financial, level to alleviate competitive concerns. For governance disclosures, C2ES recommended additional liability protections for board members who are designated climate experts and additional guidance on what would qualify as "climate-related expertise". C2ES did not support requiring board members to have climate-related expertise.

Summary of Final Rule

The final SEC rule maintains the requirement that registrants disclose the impacts of previously identified climate risks on their strategy, business model, and outlook, but conditions these disclosures to material risks. The rule now phases in a requirement to qualitatively and quantitatively disclose material expenditures and impacts on financial assumptions that arise from managing climate risks.

The final rule also streamlines strategy impact disclosures to allow for more flexibility in complying with the rule (e.g., eliminating the requirement to provide current and forward-looking disclosure). Finally, it maintains the requirement that registrants disclose the board and management governance processes of their identified climate risks. However, the rule eliminates many of the more prescriptive disclosure requirements regarding governance practices, including the requirement that board climate-risk expertise be identified.

C2ES Response to The Rule

C2ES welcomes the rule's requirements to disclose climate impacts on a company's strategy, business model, and outlook, as well as the company's climate risk governance. Additionally, C2ES sees significant benefit to the SEC taking a less prescriptive approach to many of the specific provisions, a key recommendation made in our comments to the agency, as each company's risk management process and oversight organization will vary.

CARBON OFFSETS, RECs, AND INTERNAL CARBON PRICE

Summary of Original Rule Proposal

If a company uses carbon offsets or RECs, the proposed rule required the disclosure of the role that offsets or RECs play in a company's overall climate strategy. The proposal also required disclosure of information regarding those offsets or RECs, including source, project location, authentication, and cost.

If a company used an internal climate price as part of its climate strategy, the proposed rule required disclosure of the price, boundary, and rationale for that price, including how companies utilize the carbon price in assessing their climate risks.

Summary of C2ES Comments

C2ES supported disclosure of the role that carbon offsets or RECs play in a company's strategy, recommending additional disclosures regarding the volume and use of offsets or RECs.

While C2ES supported requiring disclosure of how and if an internal carbon price is used, C2ES did not support requiring disclosure of the details of a company's internal carbon price due to competitiveness concerns. To address those concerns, C2ES suggested an expanded safe harbor for carbon price disclosures.

Summary of Final Rule

The final rule maintains the requirement to disclose the use of carbon offsets, conditioned on whether they are used as a material component of a plan to achieve a target or goal, also removing the requirement to disclose carbon offsets in the context of strategy. The rule maintains the proposal's list of underlying information required and includes additional disclosures related to carbon offsets and RECs, such as whether an offset represents carbon removal or avoidance. The rule requires certain of these disclosures to be made in financial statements under Regulation S-X.

The final rule maintains the requirement to disclose the use of internal carbon pricing, conditioned on whether a registrant uses a carbon price to manage a material climate risk. These disclosures will still include price per metric ton of carbon dioxide equivalent and total price used.

C2ES Response to the Final Rule

C2ES welcomes the rule's requirement that registrants disclose the use of carbon offsets, RECs, and internal carbon prices. C2ES continues to engage closely in voluntary and regulatory efforts related to global carbon markets.

However, while C2ES is pleased to see robust disclosure of essential tools for climate risk management like carbon pricing included in the final rule, we continue to note that the requirement to disclose price per ton and total price could lead to competitiveness concerns for companies.

SCENARIO ANALYSIS

Summary of Original Rule Proposal

If a company uses scenario analysis to analyze its climate risks, the proposed rule required that companies disclose that usage, including the specific scenarios referenced. Companies would also have to disclose the parameters, assumptions, analytical choices, and projected financial outcomes of that analysis.

Summary of C2ES Comments

C2ES supported requiring companies to disclose the use of scenario analysis and underlying analytical inputs and choices. However, companies from across industries undertake different forms of scenario analysis, and the tool is still being developed. To avoid stifling an emerging practice, C2ES recommended that the SEC not prescribe scenarios for analysis.

Additionally, C2ES did not support requiring disclosure of the financial outcomes of scenario analysis and notes that these are often impossible to quantify. that companies disclose the use and choices made in any scenario analysis in a flexible narrative form.

C2ES suggested several additional disclosures to help contextualize the use of scenario analysis in climate risk assessment, including how the scenario analysis was informed by specific business functions. C2ES also suggested that the safe harbor for scenario analysis be expanded.

Summary of Final Rule

The final rule maintains the requirement that registrants disclose the use of scenario analysis if such analysis has been performed. Further, companies are only required to disclose—in a narrative form—the scenario(s) used, the underlying parameters and assumptions, and any material financial impacts if the results of that scenario analysis are determined to have a material impact to the company. The final rule also allows for more flexible, qualitative disclosure and places scenario analysis disclosures under an additional safe harbor.

C2ES Response to The Final Rule

C2ES welcomes the requirement to disclose the use of scenario analysis, and in some cases, the underlying scenarios and assumptions used. C2ES is pleased to see the SEC adopt a final rule that allows for more flexible, narrative disclosures and extends a safe harbor for scenario analysis, as recommended in C2ES's comments.

FINANCIAL STATEMENT REPORTING

Summary of Original Rule Proposal

The proposed rule required disclosure of certain climate-related financial metrics in a note to the financial statements. These disclosures would fall under amendments to Regulation S-X and would include:

specific climate impact and expenditure metrics

impacts to related financial estimates and assumptions.

Financial statement metrics would be required on a line item-by-line item basis for total climate impacts above a 1 percent threshold.

Summary of C2ES Comments

C2ES noted that, as written, the proposal was unclear and more guidance would be needed to make the requirements operable for companies. Given this, C2ES did not support the financial statement disclosure proposal.

C2ES subsequently submitted a separate comment letter to the SEC regarding the S-X disclosure requirements. This letter included an alternative method that provided simple and clear parameters for metrics to be disclosed and additional feedback from companies on how such a proposal might elicit more useful disclosures. C2ES also recommended that SEC engage with auditing standard setters to develop further guidance to ensure consistent auditing of such financial metrics.

Summary of Final Rule

The final SEC rule removes much of the proposed Regulation S-X metrics, and instead adopts a simplified set of aggregated financial statement disclosures to be made in a note to the financial statements. This includes expenditures and capitalized costs arising from severe weather events and carbon offsets or RECs. For severe weather events, de minimis thresholds apply, staggered by company size. The SEC additionally clarified that a company need not perform a climate attribution analysis, but instead disclose expenditures arising from "severe weather events or other natural conditions" based on an attribution principle provided.

The final rule also requires that registrants include a discussion of impacts on and changes to their financial estimates and assumptions that arise from disclosed physical climate risks and transition plans.

C2ES Response to The Final Rule

C2ES is pleased to see the SEC modify the Regulation S–X proposal and adopt financial statement disclosures closer to the aggregated information suggested in our comments. The explicit clarification that companies report expenses due to severe weather events can begin to provide investors with important financial insights on companies' preparedness for the impacts of a changing climate. Clarity on costs associated with purchasing RECs and offsets can also provide insights into internal capital allocations as part of companies' efforts to achieve their climate targets.

CONCLUSION

Overall, the SEC's final rule on climate-related financial disclosures will more closely align U.S. regulations with the growing consensus of global standard-setters. While additional guidance on determining materiality would provide further clarity to reporting companies, the final rule will help investors better understand the risks and opportunities associated with climate change.

As part of C2ES's ongoing work on climate risk disclosure, low carbon transition planning, and corporate efforts to improve resilience to the physical impacts of climate change, C2ES will continue to engage with companies as they assess feasibility and begin implementing the final rule's financial statement disclosures.

Additional C2ES Resources

Factsheet on SEC's Final Rule on Climate-related Financial Disclosures
https://www.c2es.org/document/factsheet-on-secs-final-rule-on-climate-related-financial-disclosures/

Emerging Practices in TCFD-aligned Climate Risk and Opportunity Analysis and Disclosure
https://www.c2es.org/document/emerging-practices-in-tcfd-aligned-climate-risk-and-opportunity-analysis-and-disclosure/

Recommendations for Improving Disclosure of Climate-Related Opportunities
https://www.c2es.org/document/recommendations-for-improving-disclosure-of-climate-related-opportunities/

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/

Climate-Related Financial Risk
https://www.c2es.org/content/climate-related-financial-disclosures/

ENDNOTES

1 U.S. Securities and Exchange Commission, *Proposed Rule on the Enhancement and Standardization of Climate-Related Disclosures for Investors* (Washington, DC: U.S. Securities and Exchange Commission, 2022), *https://www.sec.gov/files/rules/proposed/2022/33-11042.pdf*.

2 Center for Climate and Energy Solutions, *Comments on SEC's Climate Change Disclosures* (Arlington, VA: C2ES, 2021), *https://www.c2es.org/document/c2es-comments-on-secs-climate-change-disclosures*; Center for Climate and Energy Solutions, SEC Rule Comments (Arlington, VA: C2ES, 2022), *https://www.c2es.org/wp-content/uploads/2022/06/C2ES-SEC-Rule-Comments.pdf*.

3 Center for Climate and Energy Solutions, *Supplemental Comments of C2ES Regarding Alternative Reporting Table to Proposed Regulation S-X Provisions* (Arlington, VA: C2ES, 2023), *https://www.c2es.org/wp-content/uploads/2023/02/c2es-supplemental-SEC-comments-reg-s-x.pdf*.

4 U.S. Securities and Exchange Commission, *Final Rule on the Enhancement and Standardization of Climate-Related Disclosures for Investors* (Washington, DC: U.S. Securities and Exchange Commission, 2024), *https://www.sec.gov/files/rules/final/2024/33-11275.pdf*.

5 Verena Radulovic and Sadie Frank, *Fact Sheet on SEC's Final Rule on Climate-Related Financial Disclosures* (Arlington, VA: Center for Climate and Energy Solutions, 2024), *https://www.c2es.org/document/factsheet-on-secs-final-rule-on-climate-related-financial-disclosures*.

6 "Accelerated Filer and Large Accelerated Filer Definitions," U.S. Securities and Exchange Commission, last modified April 23, 2020, *https://www.sec.gov/corpfin/secg-accelerated-filer-and-large-accelerated-filer-definitions*.

7 "Accelerated Filer and Large Accelerated Filer Definitions."

C2ES CENTER FOR CLIMATE AND ENERGY SOLUTIONS

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.

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