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The SEC climate rule is here

What to know and how you can adapt

Almost two years in the making, the US Securities and Exchange Commission (SEC) climate disclosure rule is final—and it marks an important milestone in climate disclosure reporting for the companies it affects.

The new SEC rule imposes significant requirements. But it can also present certain opportunities.

Regulation is a catalyst for transformation. The time to act is now.

What does the new rule cover?

The new rule mandates that SEC registrants will now have to include new categories of climate- and emissions-related information in their public filings, including the following disclosures:

Governance of climate-related risks

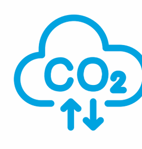
Companies must disclose information on:

- Any climate-related risks that have had or are reasonably likely to have a material impact
- The actual and potential material impacts of any identified climate-related risks on the registrant's strategy, business model, and outlook
- Any oversight by the board of directors of climate-related risks and any role by management in assessing and managing the registrant's material climate-related risks.

Climate-related financial statement impacts

Companies must disclose information regarding the capitalized costs, expenditures expensed, charges, and losses incurred as a result of severe weather events and other natural conditions, subject to applicable one percent and de minimis disclosure thresholds.

Companies must also disclose, if deemed material, carbon offset and renewable energy credit (REC) information.



Greenhouse gas (GHG) emissions

Large accelerated filers (LAFs) and accelerated filers (AFs) must disclose information regarding Scope 1 GHG emissions and/or Scope 2 GHG emissions if material.[1]

Assurance

LAFs and AFs that are required to disclose Scope 1 and Scope 2 GHG emissions will also be required to obtain limited assurance on these emissions disclosures. For LAFs, this will ramp up to reasonable assurance over time.

Financial statement disclosures are subject to existing audit requirements for financial statements and ICFR audit requirements.

Climate-related targets and transition plans

Companies must make specified disclosures regarding their activities, if any, to mitigate or adapt to a material climate-related risk. They must also disclose any use of transition plans, scenario analysis, or internal carbon prices to manage a material climate-related risk.

Disclosures are required about any targets or goals that have materially affected or are reasonably likely to materially affect the registrant's business, results of operations, or financial condition.

Not a niche assignment

The rule imposes new reporting requirements, and implementing it is likely an enterprise-wide effort. Below are potential steps to consider as you prepare.

Set the foundation for new reporting duties

- Identify actual and potential material impacts of climate-related risks to your organization[2]
- Develop or refine your GHG emissions inventory management plan
- Quantify the impacts on the financial statements
- Evaluate reporting technology, data architecture, and relevant controls over climate-related information
- Prepare for assurance

Activate across the enterprise

- Define board-level governance and management oversight for developing quality and transparent disclosures
- Streamline strategic goals by integrating financial reporting and climate-focused capabilities with overall enterprise strategy
- Implement technology and tools that connect climate and reporting data to achieve quality and transparency at scale
- Establish climate resilience by putting the talent and processes in place to drive adaptability and operational effectiveness

Finding opportunity

When you adhere to the new SEC rule, your primary motivation may be to satisfy the external regulatory requirement. But with the right approach, you can achieve benefits internally as well. The process of capturing, understanding, and reporting new climate information can potentially leave enterprises with:

Reduced risk due to stronger governance and controls

Increased stakeholder trust driven by transparent, higher-quality reporting

Improvements in financial performance from investments in climate-related activities[3]

Market differentiation and cost efficiencies from streamlined processes and technologies

What can set apart the companies that realize these opportunities? Mindset, preparation, and an enterprise-wide view. If all you see here is a data task, that's likely all it will be.

How Deloitte can advise

Understanding and satisfying the requirements of the new rule is likely a journey, not a one-time shift. As different parts of the rule phase in over time, so should your ramp-up to preparation and compliance.

Deloitte has experience and capabilities that reach across every part of your enterprise. With our holistic view, we can advise you as you turn a long list of specific regulatory check-boxes into a comprehensive strategy that can add lasting strength and transparency to your entire operation. Let's talk.

Endnotes

1. Emerging growth companies, smaller reporting companies, and non-accelerated filers are excluded from the Scope 1 and Scope 2 emissions reporting requirement.
2. Per the SEC rule, "in describing any climate-related risks that have materially impacted or are reasonably likely to have a material impact, a registrant should describe whether such risks are reasonably likely to manifest in the short-term (i.e., the next 12 months) and separately in the long-term (i.e., beyond the next 12 months)... [T]he materiality determination that a registrant will be required to make regarding climate-related risks under the final rules is the same as what is generally required when preparing the MD&A section in a registration statement or annual report... When evaluating whether any climate-related risks have materially impacted or are reasonably likely to have a material impact on the registrant, including on its business strategy, results of operations, or financial condition, registrants should rely on traditional notions of materiality. As defined by the Commission and consistent with Supreme Court precedent, 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."
3. https://www.deloitte.com/global/en/Industries/financial-services/research/gx-driving-value-creation-through-esg-practices.html

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