# SEC Final Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors

***Proposing Release No. 33-11042 (March 21, 2022); Final Release No. 33-11275 (March 6, 2024)***

| | SEC Topic | Key Proposals | Outcome |
|---|---|---|---|
| A | Disclosure framework | TCFD | TCFD with minor modifications |
| B | Risks | Describe any climate-related risks reasonably likely to have a material impact on the registrant, including its consolidated financial statements. Categorize risks by short-, medium-, and long-term, and whether they are physical (acute or chronic, location (in some cases by zip code) and nature) or transitional (regulatory, technological, market, liability, reputational, etc.). Include details about scope of exposure to high water and high water stress. {S-K 1502(a)} | Narrowed somewhat.<br><br>Disclosure was expanded to cover past risks that had material impacts. However, disclosure was narrowed to items that impact the registrant generally, including strategy, results of operations, and financial condition (and, in particular, not consolidated financial statements). Requirements to report on "climate-related risks in value chain" were removed. Disclosure now focuses on short-term (the next 12 months) and long-term (beyond the next 12 months). Zip code disclosure no longer is required, but rather a more general discussion of geographic location. Final disclosure requirements are less prescriptive, with mandatory high water and high water stress disclosures were eliminated, although these topics still might fall within the general disclosure requirements. {S-K 1502(a)} |
| C | Impacts on strategy, business model, and outlook | Describe the actual and potential material <u>impacts</u> of the disclosed risks <u>on</u> strategy, business model, and outlook, including specified items. {S-K 1502(b)}<br><br>Describe how these impacts influence, and have been integrated into, | Largely mirrors the proposed rule.<br><br>Impact disclosure was narrowed slightly, including by narrowing "suppliers and other parties in the value chain" to "suppliers, purchasers, or counterparties to material contracts, <u>to the extent known or reasonably available</u>." |

| | SEC Topic | Key Proposals | Outcome |
|---|---|---|---|
| | | strategy, financial planning, and capital allocation, including through transition plans. {S-K 1502(c)}<br><br>Describe how the impacts of climate-related risks are considered in regards to strategy, financial planning, and capital allocation. Discuss how disclosed metrics and targets relate to business model and strategy. {S-K 1502(c)}<br><br>Disclose, if any, internal carbon price and related information. Discuss the resilience of business strategy and scenario analysis if applicable. {S-K 1502(e)} | Also:<br><br>• Added an explicit materiality qualifier to clarify that a registrant is required to disclose only *material* impacts of climate-related risks.<br><br>• Clarified that the list of impacts is non-exhaustive. Therefore, if a material climate risk is identified in Item 1502(a), but is not listed in the non-exhaustive list contained in Item 1502(b), the material impact still will need to be disclosed. {S-K 1502(b)} |
| D | Governance disclosure | Describe board's oversight of climate-related risks (and opportunities), process and frequency of consideration, board members responsibility, board member expertise, consideration of risks, and role in setting targets and overseeing progress. {S-K 1501(a)}<br><br>Describe management's role in oversight and related matters and their process of reporting to the board {S-K 1501(b)} | Largely mirrors the proposed rule, with some reduction in the specificity of the required disclosure relating to the board, including the elimination of, among other items, the disclosure requirement for naming board members responsible for climate-risk oversight and describing their expertise in climate-related risks, as well as the specifics of the processes that they follow for setting climate-related targets and goals. Clarifies that disclosure regarding management oversight is limited to oversight of material climate-related risks. {S-K 1501} |

| | SEC Topic | Key Proposals | Outcome |
|---|---|---|---|
| E | Risk Management disclosure | Describe processes for identifying, assessing, and managing risks. {S-K 1503} | Largely mirrors the proposed rule, but added explicit materiality qualifier and reduced the specificity of the required disclosure. {S-K 1503} |
| F | Climate-related financial statement metrics | Where 1% or more of a line item, disclose financial impacts of severe weather and other natural conditions, transition activities, and mitigation expenditures. Also disclose whether estimates and assumptions underlying the financial statements were impacted by risks and uncertainties or known impacts of severe weather events and other natural conditions or by transition activities or climate-related targets. {S-X 14-01} | Narrowed substantially.<br><br>Disclosure required for only (i) the aggregate amount of expenditures and losses, excluding recoveries, and (ii) the aggregate amount of capitalized costs and charges, excluding recoveries, in each case as incurred or recognized during a fiscal year as a result of severe weather events and other natural conditions. Disclosure is not required unless the aggregate amounts exceed 1% of the absolute value of income or loss before income tax expense/benefit or stockholders' equity/deficit, as applicable. A further \$100,000 or \$500,000, respectively, de minimis exception applies as well. Note that the 1% is not based upon individual line items, and the number of items subject to disclosure is substantially reduced from what was proposed. The severe weather events and other natural conditions requirement is not triggered by whether the event is climate-change related, and only items for which the event is a "significant contributing factor" are covered. Recoveries must be separately disclosed.<br><br>Where material to a company's plan to achieve disclosed climate-related targets or goals, disclosures regarding carbon offsets, and renewable energy credits also is required. {S-X 14-01} |

| | SEC Topic | Key Proposals | Outcome |
|---|---|---|---|
| G | GHG emission | Disclose Scope 1 and Scope 2 emissions and intensity (based upon relevant revenue/production) and, if material, or if a Scope 3 GHG reduction target has been "set," Scope 3 emissions. {S-K 1504} | Significantly improved.<br><br>The Scope 3 disclosure requirement was eliminated. More generally, the disclosure requirements for Scope 1 and Scope 2 emissions are less explicit with respect to the details of what must be disclosed and how, although standard practices have evolved that probably impose similar requirements. Disclosure is required for only LAFs and Afs, not SRCs, EGCs, and NAFs. {S-K 1505} |
| H | Attestation of Scope 1 and 2 emissions disclosure | For accelerated and large accelerated filers, "limited assurance" attestation for the "second and third years after the compliance date" and "reasonable assurance" attestation thereafter. {S-K 1505} | Similar to the proposal, but implementation was deferred longer. The attestation must be at the "limited assurance" level beginning the third fiscal year after the compliance date and, only for large accelerated filers, at the "reasonable assurance" level beginning the seventh fiscal year after the compliance date. In a shift from the proposal, the final rules exempt SRCs and EGCs from the attestation requirement. {S-K 1506}<br><br>A registrant that is not required to include an attestation report, but voluntarily discloses its GHG emissions in an SEC filing, must disclose in the filing additional information if its GHG emissions disclosure in the filing were subject to third-party assurance. {S-K 1506(e)} |
| I | Targets and goals disclosure | If a registrant "sets" any targets or goals related to the reduction of GHG emissions or any other climate-related matter, disclose the targets or goals and related information. {S-K 1506} | Narrowed somewhat.<br><br>Disclose any climate-related target or goal that has materially affected or is reasonably likely to materially affect a registrant's business, results of operations, or |

| | SEC Topic | Key Proposals | Outcome |
|---|---|---|---|
| | | | financial condition, the progress toward meeting such targets or goals and how it has been achieved, and quantitative and qualitative disclosure of material expenditures and material impacts on financial estimates and assumptions directly resulting from the target or goal or the actions taken towards meeting them. {S-K 1504(a) – (c)}<br><br>Also, disclosure regarding the use of carbon offsets or renewable energy credits is required if they are used as a material component of a plan to achieve climate-related targets or goals. {S-K 1504(d)} |
| J | Safe harbor | Scope 3 disclosures are not "fraud" unless "made or reaffirmed without a reasonable basis or … disclosed other than in good faith."<br>{S-K 1504(f)} | Improved.<br><br>Since registrants are not required to provide Scope 3 emissions disclosure and any disclosure will be voluntary, the final rule does not include the proposed limitation on liability for those disclosures.<br><br>A new provision was added for some climate-related disclosures that were not eligible for the traditional safe harbors (Section 27A of the Securities Act and Section 21E of the Exchange Act) because of the disqualification provisions in those safe harbors. In particular, the traditional safe harbors will apply to IPOs and to companies that do not file Exchange Act reports under Sec. 13(a) or 15(d). {S-K 1507} |

<table>
<tr><th></th><th>SEC Topic</th><th>Key Proposals</th><th>Outcome</th></tr>
<tr><td>K</td><td>Compliance date</td><td>Large Accelerated Filers (LAFs) – fiscal year 2023 for all but Scope 3 and fiscal year 2024 for Scope 3; Accelerated Filers (AFs) and Non-accelerated Filers (NAFs) – same + one year; Smaller Reporting Companies (“SRCs”) – same + two years, except no Scope 3</td><td>
<table>
<tr><th>Registrant Type</th><th colspan="2">Disclosure and Financial Statement Effects Audit</th></tr>
<tr><td></td><td>All Reg. S-K and S-X disclosures, other than as noted in this table</td><td>Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)</td></tr>
<tr><td>LAFs</td><td>FYB 2025</td><td>FYB 2026</td></tr>
<tr><td>AFs (other than SRCs and EGCs)</td><td>FYB 2026</td><td>FYB 2027</td></tr>
<tr><td>SRCs, EGCs, and NAFs</td><td>FYB 2027</td><td>FYB 2028</td></tr>
</table>
<table>
<tr><th>Registrant Type</th><th colspan="3">GHG Emissions/Assurance</th></tr>
<tr><td></td><td>Item 1505 (Scopes 1 and 2 GHG emissions</td><td>Item 1506 – Limited Assurance</td><td>Item 1506 – Reasonable Assurance</td></tr>
<tr><td>LAFs</td><td>FYB 2026</td><td>FYB 2029</td><td>FYB 2033</td></tr>
<tr><td>AFs (other than SRCs and EGCs)</td><td>FYB 2028</td><td>FYB 2031</td><td>N/A</td></tr>
<tr><td>SRCs, EGCs, and NAFs</td><td>N/A</td><td>N/A</td><td>N/A</td></tr>
</table>
</td></tr>
</table>