

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

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On Wednesday, the SEC approved [final rules](#) for standardized climate-disclosure. A tabular summary of the final rules is available [here](#).

With two significant exceptions, the final rules are largely consistent with the proposed rules. The two exceptions are:

- The elimination of required disclosure with respect to Scope 3 emissions.
- A substantial reduction of the information required in a registrants' footnotes regarding the financial impacts of severe weather and other natural conditions, transition activities, and mitigation expenditures. As proposed, registrants would have been required to provide footnote disclosure for any financial statement line item where these impacts exceeded 1% of the amount of the line item. Instead, the final rules require disclosure only on expenses and capital items, and 1% is based upon income before income tax or shareholders equity, as applicable, and not the amounts of the impacted line items.

As a result, as detailed in the summary, new disclosure will be required with respect to, among other items:

- Impacts of climate-related risks on strategy, business model, and outlook;
- Board and management oversight of climate-related risks and other matters;
- Risk management process;
- Scope 1 and 2 emissions, including expert attestations for larger companies in a few years; and
- Certain targets and goals for GHG emissions.

Generally, the final rules will be phased in beginning with disclosures under new subpart 1500 of Regulation S-K and the financial statement footnotes in fiscal years beginning in 2025, with the other disclosures, such as Scope 1 and 2 emissions and limited assurances, following over the next several years.

With the exception of the attestation requirement, the final rules are largely responsive to the comments that were

submitted by the major institutional commentators. But, it is important to note that some of the improvements may prove to be illusory. In particular, while the SEC has eliminated its Scope 3 disclosure requirements, California [adopted a law](#) requiring Scope 3 disclosure for companies with revenues of \$1 billion dollars or more that do business in California. Other states are considering similar rules, or otherwise looking to require climate disclosures. Additionally, several states have already challenged the final rules in court, and it is highly likely that other litigation will be brought as well.

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