ERM POLICY ALERT

March 8, 2024

Overview of the U.S. Securities and Exchange Commission climate rules

THE ENHANCEMENT AND STANDARDIZATION OF CLIMATE-RELATED DISCLOSURES

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Background: On March 6, 2024, the U.S. Securities and Exchange Commission (SEC) took a significant step by finalizing new climate disclosure rules for companies registered with the agency.

While the final rules include significant changes from the proposed version released in March 2022, the SEC's action reflects growing recognition by investors and businesses that climate change poses financial risks. The new rules aim to provide investors with consistent, comparable, and reliable information about the financial effects of climate-related risks on a registrant's business, as well as information about how the registrant manages those risks. Company boards, chief executive officers, chief financial officers, chief operating officers, and general counsels are now critical stakeholders, and compliance will require working with corporate sustainability teams to ensure the processes and rigor of financial reporting are applied to climate-related reporting.

Requirements of the SEC climate rules

The SEC's final climate disclosure rules borrow structure, definitions, and some specific conditions from the Task Force on Climate-related Financial Disclosures (TCFD), while also incorporating elements from the Greenhouse Gas Protocol standards for reporting on greenhouse gas (GHG) emissions. The SEC acknowledges the need for a smooth transition to the new disclosure requirements and has implemented a phased compliance schedule based on company size and complexity of disclosures. While companies will need to evaluate their climate disclosure practices for potential gaps with SEC requirements, the ruling provides companies with a valuable opportunity to differentiate themselves based on carbon performance and gain competitive advantage in the low-carbon economy.

Key disclosure elements of the SEC's final climate rules, as developed from the SEC's fact sheet, include:

Climate risks	Climate-related risks that have had or are reasonably likely to have a material impact on business strategy, results of operations, or financial condition.
Material impacts	Actual and potential material impacts of identified climate-related risks on strategy, business model, and outlook.
Mitigation and adaptation	Quantitative and qualitative descriptions of material expenditures incurred and impacts on financial estimates and assumptions that directly result from mitigation or adaptation activities undertaken.
Disclosures	Specified disclosures regarding activities, if any, to mitigate or adapt to material climate-related risk including the use, if any, of transition plans, scenario analysis, or internal carbon prices.
Governance	Oversight by the board of directors of climate-related risks and any role by management in assessing and managing material climate-related risks.
Risk management	Processes for identifying, assessing, and managing material climate-related risks and whether and how processes are integrated into overall risk management.
Targets and goals	Information about climate-related targets or goals, if any, that materially affect business, results of operations, or financial condition.
GHG emissions	Scope 1 and 2 material emissions for large accelerated filers and accelerated filers not otherwise exempted.

Assurance	For those required to disclose scope 1 and/or scope 2 emissions, an assurance report which transitions from a limited level to a reasonable level for some filers.
Physical impacts	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.
Market-based instruments	Capitalized costs, expenditures expensed, and losses related to carbon offsets and renewable energy credits or certificates (RECs) if used as a material component to achieve disclosed climate-related targets or goals.
Financial statement impacts	Qualitative description of how the estimates and assumptions used to produce financial statements were materially impacted, if applicable, by risks and uncertainties associated with severe weather events and other natural conditions or any disclosed climate-related targets or transition plans.

For more information on the finalized rules, please refer to:
Final rules: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Disclosure requirements

The SEC has communicated that the latest regulations will require a company (including a foreign private issuer) to:

- File its climate-related disclosures in its registration statements and exchange act annual reports filed with the SEC.
- Provide the Regulation S-K mandated climate-related disclosures either in a separate, appropriately captioned section of its registration statement or annual report, or in another appropriate section of the filing, such as risk factors, description of business, or management discussion and analysis. This can also be achieved by incorporating such disclosure by reference from another commission filing as long as the disclosure meets the electronic tagging requirements of the final rules.
- Electronically tag climate-related disclosures in Inline XBRL.

ERM'S POINT OF VIEW

New SEC climate disclosure rules are here, requiring public companies to shed light on environmental risks and their financial impacts. At ERM, we understand navigating these complexities can feel overwhelming. ERM has deep experience translating climate risk to financial disclosures. We help you understand how to leverage the climate rules to inform your board, strategy, targets, and risk management, and create a roadmap for long-term success. By focusing on the most crucial sustainability issues for your business and aligning with investor expectations, we can help you:

- **Prioritize resource use:** Invest strategically in sustainability initiatives that make a real difference.
- **Build resilience:** Develop a future-proof strategy that considers both climate risks and opportunities.
- **Strengthen your reputation:** Showcase your commitment to responsible business practices and compliance to win the trust of stakeholders.
- **Attract top talent and investors:** Become a magnet for talent and investors who prioritize sustainability leadership.

Disclosure timelines

The final rules will become effective 60 days after publication in the federal register, and compliance will be phased in as follows.

Compliance dates under the final rules[1]

Registrant type	Disclosure and financial statement effects audit		GHG emissions/assurance			Electronic tagging
	All Reg. S-K and S-X disclosures, other than as noted in this table	Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)	Item 1505 (scopes 1 and 2 GHG emissions)	Item 1506 - limited assurance	Item 1506 - reasonable assurance	Item 1508 - inline XBRL tagging for subpart 1500[2]
Large accelerated filers	FYB 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033	FYB 2026
Accelerated filers (other than smaller reporting companies (SRCs), emerging growth companies (EGCs))	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A	FYB 2026
Smaller reporting companies (SRCs), emerging growth companies, (EGCs) and non-accelerated filers (NAF)	FYB 2027	FYB 2028	N/A	N/A	N/A	FYB 2027

[1] As used in this chart, "FYB" refers to any fiscal year beginning in the calendar year listed.

[2] Financial statement disclosures under Article 14 will be required to be tagged in accordance with existing rules pertaining to the tagging of financial statements. See Rule 405(b)(1)(i) of Regulation S-T.

SEC climate rules comparability with the California climate rules, European Sustainability Reporting Standards (ESRS), and International Financial Reporting Standard (IFRS) climate disclosures

The below table summarizes how the SEC climate rules compare with the California climate rules, ESRS, and ISSB climate disclosures.

	SEC climate-related disclosure rules	California climate rules	ESRS	IFRS S1 and S2
Type	Regulatory disclosure requirements	State legislative requirements SB 253 (Climate Corporate Data Accountability Act) and SB 261 (Climate-related Financial Risk Act)	Standards and regulations developed by European Financial Reporting Advisory Group (EFRAG)	Leading practice for regulatory disclosure requirements in specific jurisdictions
Reporting standards alignment	GHG Protocol, TCFD framework	SB 253: GHG Protocol SB 261: TCFD framework	European Sustainability Reporting Standards (ESRS)	IFRS S1 and S2: general requirements and climate-related disclosures
Scope	Climate only GHG emissions (scope 1 and 2), climate-related financial risks	Climate only GHG emissions (scope 1, 2 and 3[3]), climate-related financial risks	Broader sustainability and climate (Two cross-cutting core principles, 10 thematic areas: 5 environment, 4 social, 1 governance)	Currently: one standard on general sustainability and one on climate-related disclosure Broader coverage anticipated in the future
Applicability	SEC-registered companies including foreign private issuers	Any public or private company doing business in California that meets certain annual revenue thresholds with penalties for compliance violations	Different levels of scopes of eligibility for both EU and non-EU-based companies	Applicability determined by jurisdictions adopting ISSB standards
Materiality	Investor-focused (financial)	No mention	Double (financial and impact)	Investor-focused (financial)
Assurance	Limited assurance, followed by reasonable assurance (scopes 1 and 2)	Limited assurance, followed by reasonable assurance (scopes 1, 2, and 3)	Limited assurance requirements are expected within three years after implementation and reasonable assurance after six years	Not required but recommended to be disclosed in the company's annual report

[3] While the SEC's new rules do not mandate disclosure of scope 3 emissions, momentum is building globally with investors and other regulations focusing on the same.

Next steps for companies

The SEC's new climate rules significantly expand climate-related disclosure requirements. Companies can leverage the time before the rules come into force to develop the robust reporting capabilities and data management systems compliance will require. Even while the rules go through legal challenges, companies should enhance climate-related disclosure capacity. Here are key steps companies should consider:

Build awareness and capacity	**Define roles and responsibilities**	**Assess current state**	**Develop and implement climate-related disclosure plan**	**Create value and enhance performance**
1. Implement training programs for board, management, and employees on the new requirements and to help them prepare for emerging climate regulations.	1. Establish clear roles for board and management in overseeing climate-related risks. 2. Review and revise policies outlining roles and responsibilities for climate governance.	1. Analyze existing data gathering and reporting practices for climate information. 2. Identify gaps in strategy, data, controls, and disclosures. 3. Understand assurance requirements and plan to meet them.	1. Create a detailed plan for implementation. 2. Assess resources (personnel, processes, technology) needed for timely climate-related reporting. 3. Integrate with existing climate planning processes and reporting requirements (e.g., CSRD, California rules if applicable). 4. Execute the plan, while retaining capacity to adapt to unforeseen challenges.	1. Leverage climate-related insights to inform company planning and strategy. 2. Differentiate your company's climate-related performance to gain competitive advantage. 3. Monitor and improve the action plan including reporting and assurance approaches over time.

By taking these proactive steps, companies can ensure they are prepared to meet the SEC's new climate disclosure requirements and contribute to greater transparency and accountability on climate issues.

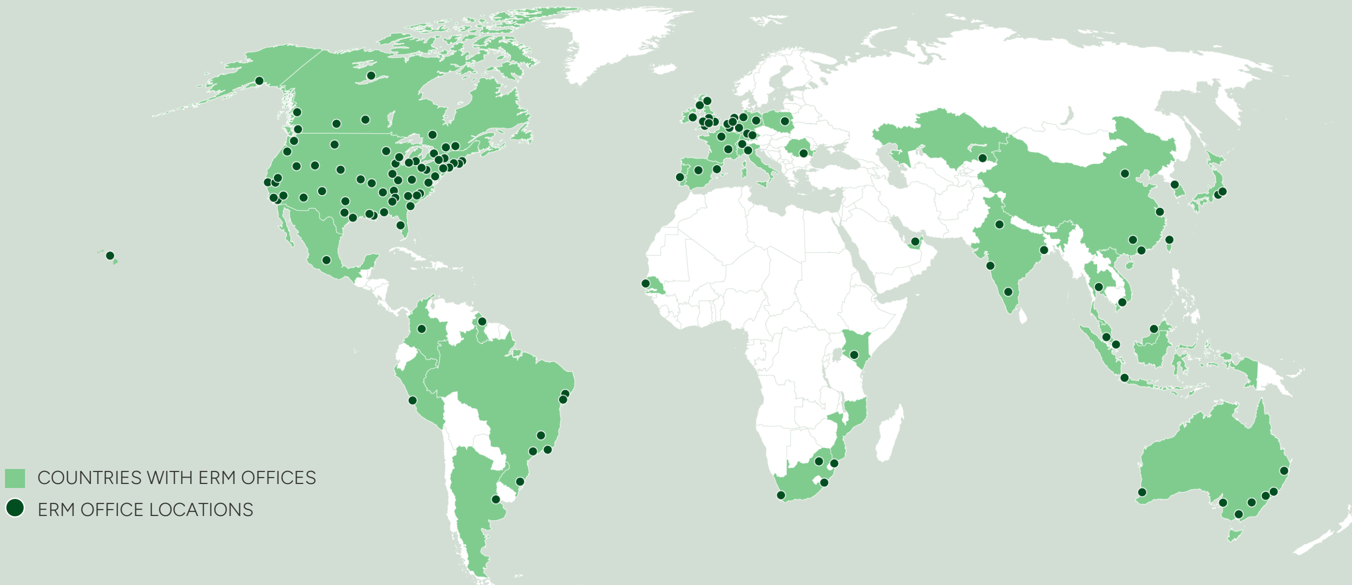
How ERM can help you:

At ERM, sustainability is our business. We are the world's largest advisory firm focused solely on sustainability. ERM has been a trusted partner to organizations navigating the complexities of sustainability related disclosures for over 51 years. ERM was lauded as the ESG and sustainability consulting leader by Verdantix Green Quadrant (2024), appointed best ESG advisory firm by Private Equity Wire (2024), named climate change consulting leader by Verdantix Green Quadrant (2023), and recognized as the #1 sustainability service provider by HFS (2022).

ERM brings unparalleled expertise to support your company's documentation, governance, process controls, data, and technical capacity of personnel generating climate data. ERM can assess readiness and work with your team to compile disclosures that are investor grade and audit ready. ERM has delivered over 250 TCFD climate-related risk analyses to clients in every industry. ERM partners with companies to advance their decarbonization journeys, from compiling inventories to setting targets, decarbonizing products and assets, disclosing results, and more.

ERM CVS, a global specialty business under the ERM umbrella, has been conducting sustainability assurance for over 25 years. We are a respected, independent third-party provider, delivering assurance to over 200 clients annually (both at the limited and reasonable level). ERM CVS conducts assurance in accordance with the globally recognized standard referenced in the SEC regulation (ISAE 3000). ERM CVS is also engaged with the International Auditing and Assurance Standards Board (IAASB) to develop the next set of globally recognized sustainability assurance standards (ISSA 5000), to be launched at the end of 2024.

About ERM



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152	8,000+	$1B+	50+	3,000+	23,000
countries where we worked on projects	professionals	annual revenue	year history	clients	projects worked on in FY23

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