The U.S. Securities and Exchange Commission's Newly Proposed Rules for Enhanced and Standardized Climate-Related Disclosures

Introduction document

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accenture

The SEC's Proposed Climate Rules – Executive Summary

The SEC's current oversight of climate-related disclosures is based on general anti-fraud provisions of the federal securities laws, and a number of entities regulated by the SEC are already required to establish plans to address business continuity and disaster recovery. The newly proposed rules will apply to all domestic and foreign companies that are publicly traded in the US and drive standardization and comparability through qualitative & quantitative disclosures on climate-related issues.

Under the proposed climate rules, publicly traded companies would be required to -

- Report greenhouse-gas emissions: Scope 1 (direct GHG from their own operations) and Scope 2 (the energy they consume, that is indirect GHG from purchased electricity and other energy), each of which need to be separately disclosed
- Obtain independent certification of their results
- In some cases, report Scope 3 emissions (GHG output of their supply chains and consumers)
- Include this information in SEC filings such as annual reports

Other key considerations -

- Disclosure of Scope 3 emissions would be mandatory only for large companies and only if:
  - this GHG output is material, or
  - if a company outlines specific targets for it
- Publicly traded companies would be required to include in their financial statements estimates of Climate-Related Risks, both:
  - Physical risks posed to a company's facilities by increased frequency of weather events where formerly rare, and
  - Transition risks resulting from efforts to wean the economy off fossil fuels and prepare for the effects of climate change

Next Steps

On March 21, the proposed rules and a summary fact sheet were published on sec.gov. The comment period will remain open for 30 days after publication in the Federal Register or until May 20, whichever period is longer. The rules will likely be finalized before the end of 2022.

Climate-Related QUALITATIVE Disclosures

What are climate-related qualitative disclosures?

Details regarding how a U.S.-listed company's leadership manages climate-related risks and opportunities and how these factors feed into the company's strategy

Climate-Related Risks	• Includes (1) physical risks from climate-related events and (2) risks that may result from government policies aimed at mitigating climate risks • The "actual or likely material impacts" of the risks on the company's business, strategy, and outlook

Climate Risk Governance	• Governance processes and framework for managing climate-related risks, for example:
	  • Risk-management controls and processes in place
	  • What the Board of Directors is doing to oversee those processes
	  • "Processes for identifying, assessing, and managing climate-related risks"

Climate Targets and Transition Plans	• If a company has publicly declared climate-related targets or goals, details on those targets including:
	  • "The scope of activities and emissions included in the target"
	  • Deadlines
	  • Any interim targets
	  • The plan to meet the goals
	• If a company has adopted a transition plan as part of its climate-related risk management strategy, "a description of the plan, including the relevant metrics and targets used to identify and manage any physical and transition risks"

Climate-Related QUANTITATIVE Disclosures

What are climate-related quantitative disclosures?

Metrics related to GHG emissions, financial impacts of climate change, and progress towards climate-related goals

GHG Emissions	• GHG emissions generated both directly and indirectly (Scope 1 and Scope 2) • Scope 3 emissions "if material" or if company has a GHG target that includes Scope 3 emissions (note that smaller companies* are exempt from the Scope 3 disclosure requirement) • For example, if a large firm announces plans to reach net-zero emissions by a certain date, it would have to specify whether that goal includes all GHG output. If so, and if the company is a large firm, it would have to include disclosure of Scope 3 emissions in its SEC filings starting in 2025. • A company would not have to obtain independent assurance that its Scope 3 estimates are accurate, and if the estimates are provided in good faith, the company won't be held liable for them.

Climate Financial Reporting	• Quantitative estimates of the qualitative climate-related risks (physical risks from droughts, floods, wildfires, and hurricanes; and transition risks from the economy weaning off fossil fuels)
	• Broader explanations about long-term vulnerabilities to climate change and processes for addressing those concerns
	• Disclosures would need to be included in:
	  • Registration statements
	  • Annual reports
	  • Notes appended to consolidated financial statements

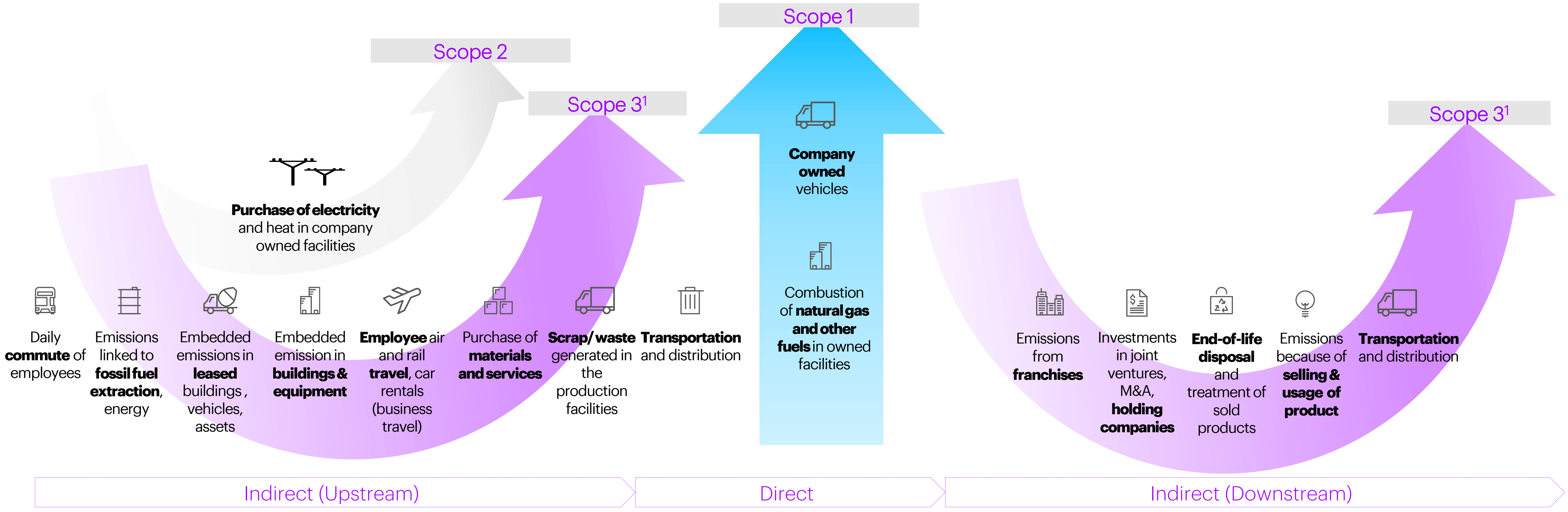
* A company generally qualifies as an SEC "smaller reporting company" if it has a public float of <$250M OR it has <$100M in annual revenues and no public float (or a public float of <$700M)

Scope 1, 2, and 3 GHG Emissions

Measurement of GHG emissions would be an enterprise-wide endeavor, as emissions are generated by every business activity.

Per the SEC's newly proposed climate-related disclosure rules :

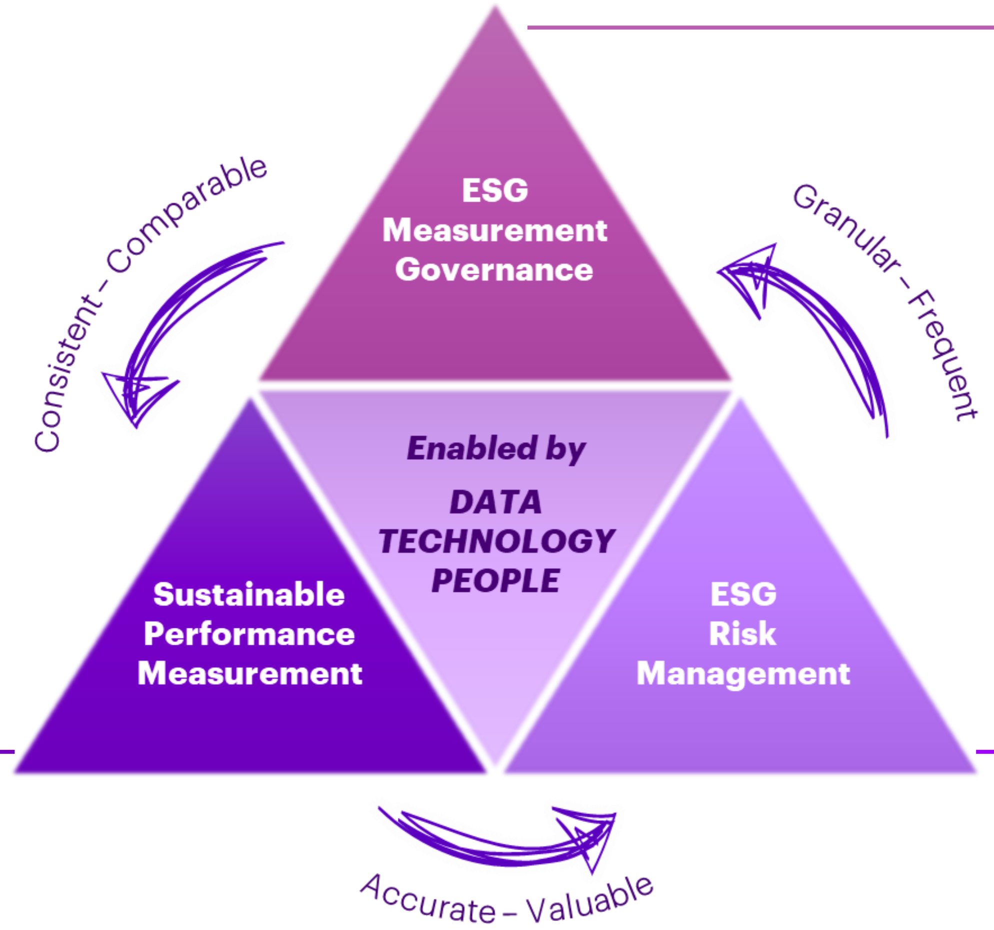
- Scope 1 & 2 – Disclosure would be required for all publicly traded companies
- Scope 3[1] – Disclosure would be required for large publicly traded companies "if material" or if company has a GHG target that includes Scope 3



[1]Scope 3 GHG emissions are often considered the most difficult to calculate and disclose.

Our ESG solutions may help enable clients to meet the SEC’s proposed enhanced disclosure requirements

ESG Measurement, Analytics & Performance



Areas of support:
- **ESG reporting & disclosure strategy**
- **ESG roles & resp. definition**
- **ESG framework selection**
- Offset strategy definition
- Policy and metrics

Areas of support:
- **ESG data solution**
- **Technology enablement**
- **Metrics (KPIs) definition**
- Capital investment
- Carbon pricing deployment
- Transition Value Case

Areas of support:
- **Climate / nature risk modelling**
- Regulatory compliance and change management
- Controls automation
- KY-E (Know your Everything)

Key Points of Contact

For questions and input on the SEC's newly proposed climate-related disclosure rules and how they relate to our client conversations and offerings...

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