How boards can prepare for the SEC’s climate-related disclosures
On March 21, the SEC proposed new rules that would significantly increase required disclosures about climate-related risks that are reasonably likely to have a material impact on a company’s business or consolidated financial statements. In voting in favor of issuing the proposal, SEC Chair Gary Gensler highlighted the extent of investor demand for enhanced disclosure in this area. He noted that “the SEC has a role to play when there’s this level of demand for consistent and comparable information that may affect financial performance.”

**Proposed disclosure highlights**

As proposed, the new rules would require disclosures in registration statements and periodic reports, such as Form 10-K and Form 20-F. Some of the proposed disclosures are based on the disclosure framework developed by the Task Force on Climate-related Financial Disclosures (TCFD).

The proposal would require disclosures for domestic registrants and foreign private issuers as follows:

- Climate-related physical and transition risks and their actual or likely material impacts on the registrant’s business, strategy, and outlook
- The registrant’s governance of climate-related risks and relevant risk management processes
- Scope 1 and Scope 2 greenhouse gas (GHG) emissions
  - Scope 3 GHG emissions would be phased in and required for all companies (except smaller reporting companies) if material or if they are included in the registrant’s emission reduction targets or goal. A safe harbor from certain forms of liability under the Federal securities laws would be provided for Scope 3 emission disclosures.
  - In addition to the disclosure of GHG emissions in gross terms, a registrant would also be required to disclose a GHG intensity measure, calculated based on emissions per unit of economic value (such as revenue or per unit of production).
  - Accelerated and large accelerated filers would be required to obtain assurance on their Scope 1 and Scope 2 GHG disclosures (on a phased basis).

Information about climate-related targets and goals, and transition plans, if any.

In addition to the disclosures required by the above proposed additions to Regulation S-K, registrants would be required to include certain climate-related financial statement metrics and related disclosures in a note to the audited financial statements. The disclosures would include the financial impacts of severe weather events and other natural conditions and identified climate-related risks on the consolidated financial statements. Disclosure would not be required if the aggregated impact is less than 1% of the total line item for the relevant fiscal year.

For more details about the new disclosure requirements, refer to the SEC’s proposed rule or three-page fact sheet.
Transition

If the rules are finalized and effective by December 2022, calendar year-end large accelerated filers would be required to include all climate-related disclosures and Scope 1 and Scope 2 GHG metrics for 2023 (filed in 2024), with additional disclosures related to Scope 3 emissions required the following year. Limited assurance on their GHG emission information would be required in 2024 (filed in 2025) with reasonable assurance required two years later (2026, filed in 2027). Accelerated filers and non-accelerated filers would have the same progression beginning with 2024 (filed in 2025). Smaller reporting companies would include disclosures under the proposal for 2025 (filed in 2026).

What is the impact for the board?

The proposal calls for a dramatic change in the nature and extent of disclosures companies would be required to make about the impact of climate change. The gathering and reporting of these incremental disclosures will likely require changes to a registrant’s systems, processes, and controls. Management teams are likely already starting the gap analysis to prepare for the transition from a voluntary to regulated disclosure regime.

The proposed rules leverage the TCFD framework, focusing on governance, strategy, risk management, and metrics and targets, and creates the potential for a significant expansion in the disclosure companies will be required to provide. Companies will want to review the oversight processes currently in place, and how oversight processes are documented.

Boards may want to consider the following:

• What are the current structures in place to oversee climate-related risk? Which processes does the board and management rely on? Does the full board oversee the process, or does a committee have responsibility? How is that documented?

• Does the board or committee have the expertise it needs to oversee climate-related risks and opportunities? What types of educational sessions or courses would be beneficial?

• How does management’s current risk identification and evaluation process incorporate climate-related risks? What level of detail is shared with the board? Is that reporting robust and frequent enough to enable the board to assess the impact on business strategy, risk management, and financial oversight?

• What climate-related commitments have been made by the company? Are there any potential gaps between current disclosure capabilities and those that would be required by the rule? What additional disclosures (beyond the baseline established in the proposed rule) would be required as a result of the commitments?

• Which framework(s) is the company currently using (such as the TCFD)? What is the gap between current disclosures and that of the proposed rules, if any?

• If adopted as proposed, when would the company be required to provide the new disclosures? What is the company’s plan to ensure it has the resources available to meet the reporting requirements and timeline?
How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partners, or a member of PwC’s Governance Insights Center.

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