



Regulatory Alert

Regulatory Insights



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Climate Risk: SEC's Mandatory Climate Disclosures Proposal

The SEC's proposed mandatory climate disclosure rules are clearly seen as historic in nature, and one of the most significant U.S. environmental actions to date. The goal of the SEC is that such disclosures will provide more consistent, comparable, and reliable information for investors to evaluate climate-related risks. Both the quantitative and qualitative elements of the proposals would have far-reaching impacts to public companies if adopted as proposed – in formalizing how they govern, monitor, measure, analyze and report climate risk activities and impacts. Companies should quickly take appropriate action, including:

- *Establish/assess GHG emission metrics and roadmap for reporting (Scope 1 and Scope 2, and Scope 3 if material or included in a reduction target)*
- *Formalize climate-risk governance and risk management (inclusive of risk identification, the measurement and the monitoring and tracking of required metrics, as well as commitments, targets and progress and the process for evaluating climate risk and controls)*
- *Evaluate climate-related risks and opportunities (aligning with TCFD, as appropriate). Consider both physical and transition risks and the use of scenario analysis (as appropriate) in terms of operational resiliency and financial impacts (capital and operating expenditures).*

The SEC has [proposed rules](#) to require mandatory climate disclosures in periodic filings by public companies with reporting obligations pursuant to the Securities Exchange Act Section 13(a) or Section 15(d), and companies filing a Securities Act or Exchange Act registration statement (registrants). The proposed rules would amend and create new sections within Regulations S-K and S-X that the SEC believes would provide more consistent, comparable, and reliable information for investors to evaluate climate-related risks to registrants. The SEC states that registrants should "continue to evaluate the climate-related risks they face and assess whether disclosure related to those climate-related risks must be disclosed in the Description of Business, Risk Factors, Legal Proceedings, and MD&A as described in the 2010 Guidance."

The proposed disclosure framework is partially modeled on the reporting framework developed by the Taskforce on Climate-related Financial Disclosures (TCFD), and utilizes much of the same terminology, due in part to its early adoption and the SEC's desire to promote consistency and comparability. Similarly, the proposed quantitative disclosures draw on, as necessary, the accounting and reporting standards developed by the Greenhouse Gas (GHG) Protocol.

Mandatory Climate Disclosures

The proposed rules would require registrants to disclose certain climate-related information, covering numerous topics including:



Strategy, Business Model, and Outlook

- Proposed **Item 1502(b)** would cover the material impacts, or potential impacts, of climate-related risks on business strategy, outlook, or consolidated financial statements over short, medium, and long terms, including:
 - Use of carbon offsets or renewable energy credits or certificates (RECs) as part of business strategy to reduce climate-related risks
 - Maintenance of internal carbon price, or the estimated cost of carbon emissions, including:
 - The price in units of the registrant’s reporting currency per metric ton of CO₂
 - The total price, including change over time, if applicable
 - Boundaries for measurement
 - Rationale for selecting the internal carbon price applied
 - The use of scenario analysis, if applicable, including:
 - How a registrant uses it to assess the resilience of its business strategy to climate-related risks
 - Descriptions of scenarios, parameters, and assumptions used, and analytical choices made
 - Projections of principal financial impacts
- Proposed **Item 1502(a)** also covers the impacts of climate events (severe weather, natural conditions, or other identified physical risks) and transition activities (including identified transition risks) on consolidated financial statements and related expenditures, including estimates and assumptions

Governance

- Proposed **Item 1501(a)(1)** covers oversight and governance of climate-related risks by the board, including:
 - Whether the entire board, specific board members, or a board committee is responsible for the oversight of climate-related risks
 - The processes by which the board is informed about climate-related risks, and the frequency of its discussions on them
 - Whether and how the board or board committee considers climate-related risks as part of its business strategy, risk management, and financial oversight
- Proposed **Item 1501(b)(1)** covers management oversight of climate-related risks, including:

- Whether certain management positions or committees are responsible for assessing and managing climate-related risks and, if so, to identify such positions or committees and disclose the relevant expertise
- The processes by which responsible managers or management committees are informed about and monitor climate-related risks
- Whether the responsible positions or committees report to the board or board committee on climate-related risks, and how frequently this occurs

Risk Management

- Proposed **Item 1503(a)** covers the processes for identifying, assessing, and managing climate-related risks, and whether the processes are integrated into overall risk management system or processes, including:
 - Determining the relative significance of climate-related risks to other risks
 - Consideration of existing or expected regulatory requirements or policies on climate-related risks
 - Consideration of shifts in customer or counterparty preferences, technological changes, or change in market prices in assessing transition risks
 - Determining materiality of climate-related risks
 - Deciding whether to mitigate, accept, or adapt to risks
 - Prioritization of climate-related risks
 - Mitigation of high-priority risks
- Proposed **Item 1503(b)** covers transition plans, or strategies and implementation plans to reduce climate-related risks, if the registrant has adopted a plan

Financial Statement Metrics

- Proposed **Rule 14-02** would require registrants to provide certain climate-related financial statement metrics and related disclosures in a note to their audited financial statements, including:
 - Financial impact metrics, based on disclosures covered by proposed Item 1502(b) applied on a line-item basis
 - Expenditure metrics, both positive and negative impacts associated with the events, activities, and risks in the proposed financial impact metrics. These metrics are separately aggregated for expenditures expensed and capitalized costs incurred during the fiscal year

- Financial estimates and assumptions discussed in a qualitative narrative, covering whether financial statements were impacted by exposures to risks and uncertainties associated with climate-related risks
- As part of the financial statements, these metrics and disclosures would be subject to external audits

GHG Emissions Metrics Disclosures

- **Scope 1** (direct) and **Scope 2** (electricity indirect) greenhouse gas (GHG) emissions metrics, separately disclosed and presented by disaggregated constituent GHGs and in aggregate, as well as in absolute and intensity terms.
 - If the registrant is an accelerated or large accelerated filer, an attestation report from an independent attestation service provider covering, at a minimum, Scopes 1 and 2 emissions disclosures, would be required.
 - Within one year of the compliance date for the disclosures, registrants would need to provide limited assurance, and within three years provide reasonable assurance.
- **Scope 3** (other indirect) GHG emissions and intensity, if material or the registrant has set a GHG emissions reduction target or goal including Scope 3 emissions
 - For registrants that do need to disclose Scope 3 emissions, an additional one-year phase-in period is provided beyond the baseline phase-in outlined below
 - Similarly, a safe harbor from certain forms of legal liability for Scope 3 emissions disclosures
 - Finally, smaller reporting companies (SRCs) are exempt from Scope 3 emissions disclosure requirements
- Climate-related **targets or goals**, if any
- The SEC would also permit registrants, if there is a lack of reasonably available data, to estimate annual GHG emissions based on data from the first three fiscal quarters of the year, as long as the registrant promptly discloses any material difference between the estimates used and actual emissions data when available

Presentation of Climate Disclosures

The proposed rules would require registrants to provide the climate-related disclosures in the following submissions:

- Registration statements and Exchange Act annual reports, such as **Form 10-K or 20-F**, as well as

updates or amendments to these in periodic reports such as **Forms 10-Q or 6-K**

- **Regulation S-K** mandated climate-related disclosures within a separate, appropriately captioned section of the registrant's registration statement or annual report
- **Regulation S-X** mandated climate-related financial statement metrics and related disclosures in a note to its audited financial statements
- Electronically tagged narrative and quantitative climate-related disclosures in Inline XBRL

Phase-In Period for Disclosure Compliance

Notably, the proposal provides a phase-in for all registrants, with the compliance date for disclosures dependent on the registrants' filer status as a large-accelerated, accelerated, or non-accelerated filer, or a SRC. The SEC notes that if the proposed rules were implemented in December 2022, compliance dates for large-accelerated filers would be the reporting deadline for fiscal year 2023, for accelerated and non-accelerated filers, fiscal year 2024, and for SRCs, fiscal year 2025. As noted above, for applicable registrants with material Scope 3 emissions, the phase-in period is an additional year beyond the baseline.

Definitions

- *Climate-related risks* – the actual or potential negative impacts of climate-related conditions and events on a registrant's consolidated financial statements, business operations, or value chains (upstream and downstream activities), as a whole
- *Physical risks* – consist of both acute, event-driven risks such as weather events (hurricanes, tornados, floods), and chronic risks from longer-term weather patterns (higher temperatures, sea level rise, drought) to a registrants' business operations or its business partners
- *Transition risks* – the actual or potential negative impacts on a registrant's consolidated financial statements, business operations, or value chains attributable to regulatory, technological, and market changes to address the mitigation of, or adaptation to, climate-related risks
- *Materiality* – climate-related information would be material if "there is a substantial likelihood that a reasonable shareholder would consider it important" in making an investment decision, or if it would have "significantly altered the 'total mix' of information made available."

Public comment period

The SEC is seeking public comments on the proposed rules. The SEC states the public comment period will remain open for 30 days following the publication of the proposal in the Federal Register, or May 20, 2022 (60

days after publication on the SEC’s website), whichever period is longer.

For additional information, please contact [Amy Matsuo](#) or [Julie Santoro](#).

Please refer to:

- [SEC Proposal: The Enhancement and Standardization of Climate-Related Disclosures for Investors](#)
- [SEC Fact Sheet: Enhancement and Standardization of Climate-Related Disclosures](#)
- [KPMG Regulatory Alert | BCBS consultation: Principles to manage climate-related financial risks](#)
- [KPMG Regulatory Alert | OCC principles for large bank climate risk management](#)
- [KPMG Regulatory Alert | Climate scenario analysis](#)

SEC Climate Proposal

Intended to provide more consistent, comparable, and reliable information for investors.

<p>Financial statements would include:</p> <ul style="list-style-type: none"> — Financial impact metrics, line item basis — Expenditure metrics, disaggregated — Financial estimates and assumptions 	<p>GHG emissions disclosures would include:</p> <ul style="list-style-type: none"> — Scope 1 and 2 <ul style="list-style-type: none"> – Limited assurance for (large) accelerated filers, moving to reasonable assurance after 2 years — Scope 3 if material or part of goals/targets
<p>Other disclosures would include:</p> <ul style="list-style-type: none"> — Governance and risk management processes — Physical and transition risks, actual or likely impacts — Targets, goals and any transition plan — Scenario analysis, if used — Carbon offsets or RECs, if used 	<p>Proposed applicability</p> <ul style="list-style-type: none"> — Domestic and foreign filers — Annual filing and registration statements — Material updates in quarterly filings — Scope 3: smaller reporting companies exempt; safe harbor for others — Phased transition starting fiscal 2023; assurance one year later

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