Deloitte.

Heads Up | Volume 31, Issue 5
March 15, 2024 (Updated April 8, 2024)

In This Issue

- Overview
- Financial Statement Disclosures
- GHG Emission Metrics
- Other Disclosures Outside the Financial Statements
- Materiality and Safe Harbor
- Location, Periods Required, and Timing of Disclosure
- ICFR and DCPs
- Audit and Assurance Considerations
- Affected Companies and Filings
- Transition Provisions
- Comparison With Other Climate Disclosure Regulations

Comprehensive Analysis of the SEC's Landmark Climate Disclosure Rule

This *Heads Up* was updated on April 8, 2024, to address the SEC's stay of the effective date of the final rule pending judicial review. See discussion in the Implementation Considerations section.

Overview

On March 6, 2024, the SEC issued a final rule[1] that requires registrants to provide climate disclosures in their annual reports and registration statements, including those for initial public offerings (IPOs), beginning with annual reports for the year ending December 31, 2025, for calendar-year-end large accelerated filers. The final rule reflects several key differences from the requirements in the proposed rule.[2] For example, companies will not have to provide Scope 3 greenhouse gas (GHG) emission disclosures (i.e., disclosures about a company's value chain emissions), their financial statement disclosure requirements will be less extensive, and they will have more time to implement the disclosures and related assurance requirements.

In the footnotes to the financial statements, registrants must provide information about (1) specified financial statement effects of severe weather events and other natural conditions, (2) certain carbon offsets and renewable energy certificates (RECs), and (3) material impacts on financial estimates and assumptions that are due to severe weather events and other natural conditions or disclosed climate-related targets or transition plans. These disclosures will be subject to existing audit requirements for financial statements.

Disclosures required outside of the financial statements include:

[1] SEC Final Rule Release No. 33-11275, *The Enhancement and Standardization of Climate-Related Disclosures for Investors.*
[2] SEC Proposed Rule Release No. 33-11042, *The Enhancement and Standardization of Climate-Related Disclosures for Investors.*

- Key Changes From the Proposed Rule
- Implementation Considerations
- Other Resources
- Contacts

- For large accelerated filers and accelerated filers, material Scope 1 and Scope 2 GHG emissions, subject to assurance requirements that will be phased in.
- Governance and oversight of material climate-related risks.
- The material impact of climate risks on the company's strategy, business model, and outlook.
- Risk management processes for material climate-related risks.
- Material climate targets and goals.

In his statement about the final rule, SEC Chair Gary Gensler noted that the final rule will "provide investors with consistent, comparable, decision-useful information, and issuers with clear reporting requirements."

Financial Statement Disclosures

As discussed in detail below, Regulation S-X, Article 14,[3] requires the disclosure of certain information in the footnotes to the financial statements, including:

- Specified financial statement effects of severe weather events and other natural conditions.
- Certain carbon offsets and RECs.
- Material impacts on financial estimates and assumptions that are due to severe weather events and other natural conditions or disclosed climate-related targets or transition plans.

The disclosures apply to all registrants (except for asset-backed issuers), including emerging growth companies (EGCs), smaller reporting companies (SRCs)[4] and foreign private issuers, and should be prepared by using financial information in a manner consistent with the scope of the consolidated financial statements and on the basis of the same accounting principles (e.g., U.S. GAAP or IFRS® Accounting Standards). Also, registrants must supplement the disclosures with any contextual information necessary for investors to understand how they were prepared, including any significant inputs, assumptions, judgments, or policy decisions involved in the calculation of the amounts.

Connecting the Dots

As discussed in the Audit Considerations and Internal Controls sections, the financial statement disclosures will be subject to existing financial statement audit requirements and management's internal control over financial reporting (ICFR). These disclosures will be required beginning with the earliest compliance date for each registrant (see the Transition Provisions section for more information). Registrants should begin establishing accounting policies and internal controls to address these disclosures in advance of their compliance date.

Financial Statement Effects of Severe Weather and Other Natural Conditions

Registrants must disclose certain financial statement effects of severe weather events and other natural conditions, including "hurricanes, tornadoes, flooding, drought, wildfires, extreme temperatures, and sea level rise." All severe weather events or other natural conditions are subject to this disclosure requirement, regardless of whether they were caused or partially caused by climate change.

[3] Regulation S-X, Article 14, "Financial Statement Effects."

[4] Regulation S-X, Article 8, "Financial Statements of Smaller Reporting Companies," which governs the financial statements required for SRCs, was amended to require the disclosures enumerated in Regulation S-X, Article 14.

Connecting the Dots

The final rule intentionally does not define severe weather events or other natural conditions; instead, it provides a nonexhaustive list of examples. Registrants will need to develop an accounting policy for determining what qualifies as a severe weather event or other natural condition and exercise judgement in applying that policy to specific facts and circumstances.

Disclosure of the financial statement effects of severe weather and other natural conditions is bifurcated into two categories: (1) expenditures expensed as incurred and losses ("income statement effects") and (2) capitalized costs and charges ("balance sheet effects") resulting from severe weather events and other natural conditions. The final rule provides the following considerations related to these effects:

Income Statement Effects	Balance Sheet Effects
Expenditures expensed as incurred and losses to: • "[R]estore operations." • "[R]elocate assets or operations affected by the event or other natural condition." • "[R]etire affected assets." • "[R]epair affected assets." • "[R]ecognize impairment loss on affected assets." • "[O]therwise respond to the effect that severe weather events and other natural conditions had on business operations."	Capitalized costs and charges to: • "[R]estore operations." • "[R]etire affected assets." • "[R]eplace or repair affected assets." • "[R]ecognize an impairment charge for affected assets." • "[O]therwise respond to the effect that severe weather events and other natural conditions had on business operations."

Attribution

Amounts reflected in the aggregation and disclosure should be transactions "that are recorded in a registrant's books and records during the fiscal year." Registrants are not required to assign or allocate amounts on the basis of an estimation of the extent to which the effects recognized are due to a severe weather event or other natural condition. Rather, if a severe weather event or other natural condition was a "significant contributing factor" to the recognition of the expenditures, losses, capitalized costs, charges, or recoveries (such as insurance proceeds; see discussion below), registrants will include the entire amount in their calculation. For example, while elements of buildings, such as windows, may be more prone to damage as they age, when they are damaged as a result of a hurricane, a registrant would not be required to determine what role the age of the window played in the damage. Instead, the registrant would assess whether the hurricane was a significant contributing factor to the costs and expenses incurred related to the window's repair or replacement. If the hurricane was a significant contributing factor, the registrant would then reflect the entire amount within "income statement effects" or "balance sheet effects," as applicable.

Connecting the Dots

The final rule does not define "significant"; however, it acknowledges the concept of significance that is currently applied under U.S. GAAP and cites ASC 280,[5] ASC 323, ASC 810, and ASC 820. Registrants will need to develop an accounting policy for determining when a severe weather event or other natural condition is a significant contributing factor and should consider the ASC references in the final rule and relevant interpretations of that guidance when doing so. While the ASC topics generally do not establish "bright lines" related to significance (e.g., ASC 820), ASC 323 states that an investor is presumed to have *significant* influence if it holds "[a]n investment . . . of 20 percent or more of the voting stock of an investee."

[5] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

Disclosure Thresholds

Disclosure is required in the notes to the financial statements if the aggregate amount for each category exceeds the respective threshold:

- *Income statement effects* — The aggregate amount of expenditures expensed[6] as incurred and losses recognized as a result of severe weather events and other natural conditions, subject to a threshold of the greater of 1 percent of the absolute value of pretax income (loss) or $100,000.
- *Balance sheet effects* — The aggregate amount of the absolute value of capitalized costs and charges recognized as a result of severe weather events and other natural conditions, subject to a threshold of the greater of 1 percent of the absolute value of stockholders' equity or deficit or $500,000.

Registrants must determine the aggregate amounts before considering any recoveries such as insurance. If disclosure of the income statement and balance sheet effects is required, registrants must separately state the amounts recognized in each financial statement line item affected. Similarly, when these disclosures are required, registrants must separately state the amount of recoveries (e.g., insurance proceeds) recognized in each financial statement line item affected.

Connecting the Dots

When disclosing the financial statement effects of severe weather and other natural conditions, a registrant would use the greater of a 1 percent threshold or a de minimis threshold ($100,000 for income statement effects and $500,000 for balance sheet effects). Although the amounts included in these aggregations and disclosures are the transactions recorded in a registrant's financial records, the registrant would need to have the appropriate processes, procedures, and internal controls in place to identify and aggregate this information and develop the disclosures.

Disclosure Example

Example 1

As of and for the year ended December 31, 2027, Registrant D, a manufacturer, had total stockholders' equity of $550 million and total pretax income of $230 million. Registrant D recorded $5 million of charges related to damage to a building from a significant wildfire. It further capitalized $7 million in costs to replace the building. In addition, as a result of a hurricane, D expensed $2 million in expenditures as incurred to temporarily relocate assets in advance of the storm. Insurance provided D with $1 million in recoveries for the relocation of assets.

[6] Expenses related to the amortization or depreciation of assets capitalized, such as fixed assets, would not be reflected in this amount because those expenditures are not expensed as incurred.

Example 1 (continued)

Wildfires and hurricanes are both included within D's definition of a severe weather event or natural condition. Further, D determined that these severe weather events and natural conditions were significant contributing factors to the expenditures, losses, capitalized costs, and charges incurred. To determine whether disclosures are required, D performs the following calculations:

Category	Current Fiscal Year Balances	Disclosure Threshold	Wildfire	Hurricane	Total
Balance sheet effects	Stockholders' equity of $550 million	$ 5.5 million	$ 12 million*	—	$ 12 million
Income statement effects	Pretax income (loss) of $230 million	$ 2.3 million	$ 5 million**	$ 2 million	$ 7 million

* Represents the impaired building ($5 million) and the capitalization of the replacement building ($7 million).

** Represents expenses related to the impairment of the building ($5 million).

Since the balance sheet effects and the income statement effects both exceed the disclosure threshold, D would disclose the financial statement effects related to severe weather events and other natural conditions for both categories, including the affected line items. For example, in addition to contextual information necessary for investors to understand how the information was prepared, D might provide the following disclosure:

Note X — Financial Statement Effects Related to Severe Weather Events and Other Natural Conditions

	Balance Sheet		Income Statement		
	Year ended December 31		Year ended December 31		
Category	2026	2027	2025	2026	2027
Capitalized costs and charges:					
Plant, property, and equipment	$ —	$ 2 million*			
Expenditures expensed and losses incurred:					
Impairment expense			$ —	$ —	$ (5 million)
Cost of revenue			$ —	$ —	$ (2 million)

* Calculated as the amount capitalized for the replacement building ($7 million) less the amount of impairment recognized on the damaged building ($5 million).

Registrant D recorded the $1 million in insurance recoveries that it received in the other income (loss) line item within its income statement for the fiscal year ended 2027.

Carbon Offsets and RECs

In accordance with the final rule:

- Carbon offsets represent "an emissions reduction, removal, or avoidance of [GHGs] in a manner calculated and traced for the purpose of offsetting an entity's GHG emissions."
- A REC is "a credit or certificate representing each megawatt-hour (1 MWh or 1,000 kilowatt-hours) of renewable electricity generated and delivered to a power grid."

A registrant must provide the following financial statement disclosures about carbon offsets or RECs when its use of them is a material component of its plan to achieve its disclosed climate-related targets or goals:

- The aggregate amount:
  - Expensed during the fiscal year.
  - Capitalized during the fiscal year.
  - Losses incurred during the fiscal year.
- The beginning and ending balances of the amounts capitalized.
- The income statement and balance sheet line item(s) in which amounts are expensed or capitalized, or losses are recognized.
- The accounting policy for carbon offsets or RECs.

Disclosure of carbon offsets and RECs within the audited financial statements is expected to "anchor the disclosures required outside the financial statements to those required within the financial statements."

The following example illustrates these disclosures:

Example 2

Registrant B is a large accelerated filer with a calendar year-end. Registrant B has established a goal of reducing its GHG emissions by 50 percent by 2040 and concluded that this goal should be disclosed outside the financial statements in accordance with the requirements described in the Targets and Goals section (i.e., the target has materially affected or is reasonably likely to materially affect B's business, results of operations, or financial condition).

As part of B's strategy to achieve that goal, B acquires and uses carbon offsets and RECs. Further, B has concluded that the use of carbon offsets and RECs is a material component of its plan to achieve that goal. In addition, B currently uses an intangible-asset model to account for these transactions, capitalizing the costs associated with the acquisition of the carbon offsets and RECs. For the fiscal year ended December 31, 2026, B purchased $25 million, expensed $40 million upon surrender, and recognized impairment charges of $5 million. Also, B's carbon offset and REC balance as of January 1, 2026, was $70 million. Besides its accounting policy for these carbon offsets or RECs and required contextual information, B would provide the following disclosure in its 2026 financial statements:

Note X — Carbon Offsets and RECs

Carbon offsets and RECs are recognized in the "intangible asset" line item. Carbon offsets and RECs are expensed in the "cost of revenue" line item on the income statement when surrendered. Impairment expense, if any, is recognized in the "intangible asset impairment" line item on the income statement.

Carbon Offsets and RECs	
Carbon offsets and RECs on January 1, 2026	$ 70 million
Capitalized carbon offsets and RECs	25 million
Expensed carbon offsets and RECs	(40 million)
Impairment of carbon offsets and RECs	(5 million)
Carbon offsets and RECs on December 31, 2026	$ 50 million

Unlike the 1 percent threshold for disclosures about financial statement effects, these disclosures are required only if a registrant concludes that the use of carbon offsets or RECs is a material component of achieving a disclosed material climate-related target or goal.

Connecting the Dots

The SEC acknowledges in the final rule that there is currently diversity in practice related to how companies account for carbon offsets or RECs. However, in October 2023, the FASB made several tentative decisions related to the scope of its project on the accounting for environmental credit programs, including those related to recognition, measurement, and derecognition of environmental credits that are determined to be assets. For more information about this project, see Deloitte's October 25, 2023, *Heads Up*.

Estimates and Assumptions

Registrants are required to disclose whether "severe weather events and other natural conditions . . . or any climate-related targets or transition plans disclosed" have materially affected estimates and assumptions reflected in the financial statements. If such disclosures are required, the registrant must provide a qualitative explanation of the impact of these events, conditions, targets, or transition plans on the estimates and assumptions used in the financial statements. For example, a registrant that discloses a specific climate target in its SEC filing may plan to retire certain assets early to reduce GHG emissions. Disclosure would be required if there is a material change in the useful life of these assets as a result of the disclosed climate targets. However, if a registrant concludes that its estimates and assumptions were not materially affected, no disclosure would be required.

Connecting the Dots

The requirement to disclose whether and, if so, how climate-related targets and transition plans have materially affected a registrant's financial statement estimates and assumptions reinforces the importance of clear and open communication between finance and accounting personnel and those responsible for overseeing climate-related targets and transition plans.

GHG Emission Metrics

The final rule categorizes and defines GHG emissions as follows:

Scope 1 GHG emissions	"[D]irect GHG emissions from operations that are owned or controlled by a registrant."
Scope 2 GHG emissions	"[I]ndirect GHG emissions from the generation of purchased or acquired electricity, steam, heat, or cooling that is consumed by operations owned or controlled by a registrant."

Metrics

Large accelerated filers or accelerated filers (other than SRCs and EGCs) are required to disclose Scope 1 or Scope 2 GHG emissions, or both, if they are material. For each category of material GHG emissions, a registrant must disclose gross emissions (before considering any purchased or generated offsets) released during the fiscal year on the basis of metric tons of carbon dioxide equivalent ("CO_2e"). Registrants must also separately disclose each constituent GHG (e.g., carbon dioxide, methane, nitrous oxide, nitrogen trifluoride, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride) that is individually material. For example, a particular constituent GHG may be material if that gas has been disclosed as part of a GHG emission reduction target or goal. The final rule also requires assurance over GHG emission disclosures (see the Audit and Assurance Considerations section for more information).

Although the final rule does not require registrants to disclose Scope 3 GHG emissions or GHG intensity measures, registrants may provide this information voluntarily.

Materiality of GHG Emission Disclosures

The final rule states that Scope 1 or Scope 2 GHG emissions "may be material because their calculation and disclosure are necessary to allow investors to understand whether those emissions are significant enough to subject the registrant to a transition risk that will or is reasonably likely to materially impact its business, results of operations, or financial condition in the short- or long-term." A registrant would not determine materiality solely on the basis of an amount of GHG emissions; instead, it would also assess whether "a reasonable investor would consider the information important in deciding how to vote or make an investment decision."

For example, GHG emission disclosures may be material to registrants with significant operations that are currently, or reasonably likely to become, subject to the GHG reporting requirements of foreign or local laws under which noncompliance may result in material financial penalties, increased taxes, or other regulatory burdens. Such disclosures may also be considered material if investors need the information to obtain an understanding of the registrant's disclosed transition plan, targets or goals, and progress toward those targets or goals.

A registrant may determine that its Scope 1 GHG emissions are material while its Scope 2 GHG emissions are not, or vice versa. In these cases, the final rule requires the registrant to disclose only the material emissions.

Connecting the Dots

Many registrants have included disclosures about GHG emissions, as well as other climate matters, in sustainability or ESG reports not filed with the SEC. In advance of the final rule, the SEC staff issued comments to registrants asking whether they considered including, in their SEC filings, the often expansive disclosures provided in such sustainability reports. Therefore, registrants may consider assessing the differences between their SEC filings and separate sustainability reports as well as the differences between users of those disclosures.

Methods and Assumptions

The final rule requires a registrant to provide a brief description of the protocol or standard it used to report its GHG emissions, including its calculation approach, the type and source of emission factors used, and any other types of tools used to calculate the GHG emissions. While a registrant must disclose the type and source of emission factors (e.g., 2024 EPA emission factor for mobile combustion), the final rule does not require the registrant to provide potentially lengthy numeric descriptions of each factor (e.g., 9.75 kg CO_2 per gallon). A registrant also would be expected to disclose the method it used to calculate its Scope 2 GHG emissions (e.g., the location-based method or market-based method) and whether that method differed from the approach it used to calculate Scope 1 emissions. If a registrant discloses Scope 2 GHG emissions, it should describe whether and, if so, how RECs factored into its gross emissions calculation. See Section 5.7.3 of Deloitte's Roadmap *Greenhouse Gas Protocol Reporting Considerations* for information about the Scope 2 quality criteria.

Further, in a manner consistent with the proposed rule, a registrant may make reasonable estimates when calculating GHG emissions. However, it must disclose "the assumptions underlying, and its reasons for using, the estimates" to help investors understand how it calculated the GHG emissions in the disclosures. Notably, the final rule gives domestic registrants additional time to provide their annual GHG emission disclosures, which must be filed no later than the due date of their Form 10-Q for the second fiscal quarter (see the Timing of Disclosure section). This extra time may reduce the circumstances in which a registrant would be required to estimate its emissions for a portion of the reporting period.

Connecting the Dots

While the final rule does not require registrants to use a specific method for calculating emissions, it refers to certain frameworks, including:

- The GHG Protocol's corporate accounting and reporting standard.
- Regulations of the U.S. Environmental Protection Agency.
- The applicable standards of the International Organization for Standardization.

Companies widely use the GHG Protocol for voluntary reporting or for reporting in other jurisdictions. For more information about such reporting, see Deloitte's Roadmap *Greenhouse Gas Protocol Reporting Considerations*.

Boundaries

The final rule does not mandate a specific approach (e.g., financial control) for establishing organizational or operational[7] boundaries in the calculation of GHG emissions. However, registrants must provide the following disclosures:

- A description of the organizational boundaries used to calculate GHG emissions.
- The method used to determine such boundaries.
- A brief explanation of any material differences between the organizational boundaries used and "the scope of entities and operations included in [their] consolidated financial statements."
- A brief discussion of operational boundaries, including the categorization of emissions and emission sources.

Connecting the Dots

Many companies that already provide voluntary GHG emission disclosures use the GHG Protocol and the operational control approach to measure their emissions. The final rule gives registrants the flexibility to determine their organizational boundaries. For example, a registrant that currently uses the operational control approach under the GHG Protocol to measure its emissions may leverage this information (assuming that it meets all other requirements) in the disclosures it must provide under the final rule. In this case, if the scope of entities and operations differs from the scope of such entities and operations included in the consolidated financial statements, the registrant must describe the material differences between the disclosures. Therefore, registrants using the operational control approach (and other approaches under which the scope of entities and operations differ from that in the consolidated financial statements) will need to assess the nature of the differences and provide appropriate disclosure, if material. Because such disclosure has not been required under voluntary frameworks, registrants may need additional time to prepare the disclosures, even if they are already reporting GHG emissions voluntarily.

Other Disclosures Outside the Financial Statements

Governance

The final rule requires a registrant to disclose the following information about how its board of directors oversees the assessment and management of climate-related risks:

- The specific board committee(s) or subcommittee(s) responsible for overseeing climate-related risks.

[7] Registrants are not required to include emissions from manure management systems, which are predominantly used in agriculture, when providing GHG emission disclosures in their SEC filings. The 2023 Consolidated Appropriations Act explicitly stipulates that no federal funds (including amounts approved for the SEC) may be used to implement GHG reporting for such systems.

- The processes by which the board committee(s) or subcommittee(s) are informed of climate-related risks.
- Whether and, if so, how the board committee(s) or subcommittee(s) oversee progress toward any disclosed climate-related target, goal, or transition plan.

However, these disclosures are not required if the board of directors does not exercise oversight over climate-related risks. Under the final rule, registrants must disclose **any** climate-related risks overseen by the board of directors. Materiality is not considered because matters overseen by the board of directors are generally expected to be material.

By contrast, disclosures about management's role in assessing and managing climate-related risks must be provided only if they apply to its oversight of **material** risks. Such disclosures may include:

- The specific executives or management committee(s) responsible for assessing and managing climate-related risks.
- The relevant expertise of those executives or members of a management committee or committees.
- The processes that management undertakes to assess and manage climate-related risks and whether it reports these risks to the board of directors (or a committee or subcommittee).

Connecting the Dots

These disclosures are similar in nature to those required under the SEC's recent final rule[8] on cybersecurity risk since both require registrants to discuss board oversight as well as describe the management role responsible for oversight "in such detail as necessary to fully describe the nature of the expertise." Likewise, both omit the proposed requirement to identify and provide information about board members who have climate or cyber expertise.

Strategy

The final rule defines climate-related risks as "the actual or potential negative impacts of climate-related conditions and events on a registrant's business, results of operations, or financial condition." A registrant is required to describe any climate-related risks that have had or are reasonably likely to have a material effect on its business strategy, results of operations, or financial condition, including whether the risks are expected to manifest in the short term (i.e., next 12 months) and, separately, in the long term (i.e., beyond the next 12 months). These may include physical risks that are either acute (e.g., hurricanes, floods) or chronic (e.g., longer-term weather patterns such as sustained higher temperatures) as well as "risks related to a potential transition to a lower carbon economy ('transition risks')." The table below outlines the disclosure requirements for each type of risk.

Required Disclosures by Type of Climate Risk

Physical Risks	Transition Risks
• Nature of the risk (e.g., acute, chronic) • Geographic location • "Nature of the properties, processes, or operations subject to [such] risk."	• Whether risk is related to regulatory,[9] technological, market (e.g., changing consumer or investor preferences), or other transition-related factors. • The impact of those factors on the registrant.

[8] SEC Final Rule Release No. 33-11216, *Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure*.

[9] The final rule specifically identifies the need for registrants with material operations in a jurisdiction that has made a GHG emission reduction commitment to consider whether the implementation of such commitment is a material transition risk.

For all material climate-related risks, a registrant is required to disclose the actual or potential material impacts of the risk to the registrant's "strategy, business model, and outlook," including impacts to factors such as its:

- Operations.
- Products or services.
- Suppliers, purchasers, or counterparties to material contracts (to the extent known or reasonably available).
- Transition activities (e.g., new technologies or processes).
- Research and development expenditures.

A registrant must also disclose information about the impacts of such risks, including:

- How they affect its "strategy, financial planning, and capital allocation."
- Whether the risks have been integrated into its business model or strategy.
- How resources are allocated to mitigate the related risks.
- How any disclosed targets (see the Targets and Goals section) and any transition plans are related to its business model or strategy.

The disclosures also address how the risks have materially affected or are reasonably likely to materially affect the financial statements, including those related to material expenditures and impacts described in the Material Expenditures and Impacts section.

Connecting the Dots

Many public companies currently address climate-related risks as part of their risk factor disclosures in their annual reports. For example, more than 90 percent of companies in the S&P 500 index disclosed matters related to climate change or emissions in the risk factors section of their most recent annual report. However, the final rule requires companies to provide more information than they do currently in existing risk factor disclosures.

Transition Plan

A registrant that has adopted a plan to manage material climate transition risks should describe the plan and update its description annually to specify its progress toward completing the transition plan, including any actions taken under the plan and how those actions have affected the registrant's business, results of operations, or financial condition. The final rule also requires disclosure of material expenditures and impacts that directly result from the transition plan (see the Material Expenditures and Impacts section for more information).

Internal Carbon Price

If a registrant uses an internal carbon price (e.g., a monetary cost assigned to carbon emissions for budgeting, forecasting, or performance management) and this use is material to how it evaluates material climate-related risks, the registrant must disclose:

- The current price per metric ton of CO_2e.
- The total price as well as expected changes over the short and long term.
- Any material differences between the organizational boundaries used to determine GHG emissions (see the Boundaries section) and the entities and operations addressed by the internal carbon price.

Registrants that use multiple internal carbon prices must provide these disclosures for each price and describe any reasons for using different prices.

Scenario Analysis

If a registrant uses a scenario analysis to assess its business in the context of climate-related risks and, on the basis of that analysis, determines that a climate-related risk is reasonably likely to have a material impact, the registrant must describe each scenario, including the parameters, assumptions, and projected financial impacts.

Connecting the Dots

The SEC did not mandate in the final rule that registrants use a transition plan, an internal carbon price, or a scenario analysis. A registrant must disclose its use of such risk management tools only if its use of them is material or yields material information.

Climate Risk Management

A registrant is required to disclose its processes for "identifying, assessing and managing" material climate-related risks. Such disclosure includes how the registrant:

- Evaluates whether a material physical or transition risk has been incurred or is reasonably likely to be incurred.
- Determines its response to an identified risk, including whether to "mitigate, accept, or adapt to the particular risk."
- Prioritizes whether it will address a material climate-related risk.

Further, a registrant should disclose whether and, if so, how those processes are integrated into its broader enterprise risk management program.

Targets and Goals

Although many public companies have established specific climate targets and goals, the materiality of such targets or goals governs whether disclosure is required. Registrants must disclose information about their publicly announced or **internal** climate-related targets or goals if they materially affect or are reasonably likely to materially affect the business, results of operations, or financial condition (e.g., expenditures or operational changes needed to meet the targets or goals). For material climate-related targets or goals, required disclosures include:

- The scope of activities encompassed (e.g., Scope 1, Scope 2, or Scope 3 GHG emissions, domestic operations only).
- How the target is measured (e.g., reduction of CO_2e emitted, reduction of CO_2e emitted per unit of revenue).
- The time horizon envisioned for achieving the target (e.g., a 50 percent reduction in GHG emissions by 2030) and whether that time horizon was established on the basis of a "climate-related treaty, law, regulation, policy or organization" (e.g., a goal of the Science Based Targets initiative).
- The baseline against which progress will be tracked and how progress will be assessed (if applicable).
- How the registrant plans to achieve its targets or goals.
- An update each year of how the registrant is progressing relative to its targets or goals and how such progress has been achieved, including actions taken during the year.

If carbon offsets or RECs are a material component of the plan to achieve climate-related targets or goals, a registrant must disclose the following information about them:

- The amount of progress attributable to them (i.e., the "amount of carbon avoidance, reduction or removal represented by the offsets" and the "amount of generated renewable energy represented by the RECs").
- Their nature, source, and cost.
- A description, and the location, of the associated projects.
- Any related registries or other form of authentication.

Connecting the Dots

Although the final rule does not require disclosure of Scope 3 GHG emissions (see the GHG Emission Metrics section for further details), if a registrant has established any targets or goals that are material and includes Scope 3 GHG emissions within the scope of those targets or goals (e.g., a percentage reduction in Scope 3 GHG emissions over a specified time horizon), the registrant would be required to provide the disclosures outlined above with respect to such targets or goals.

Material Expenditures and Impacts

The final rule requires registrants to disclose quantitative and qualitative information about material expenditures and impacts on financial estimates and assumptions that are the direct result of (1) mitigation of or adaptation to climate-related risks, (2) disclosed transition plans, or (3) the disclosed targets or goals, or actions taken to achieve or progress toward those targets or goals.

Mitigation or Adaptation

Registrants must "describe quantitatively and qualitatively the material expenditures incurred and material impacts on financial estimates and assumptions that, *in management's assessment*, directly result from activities" (emphasis added) to mitigate or adapt to material climate-related risks. The disclosure would include material expenditures, whether capitalized or expensed, incurred during the fiscal year to mitigate or adapt to climate-related risks (including both physical and transition risks). This metric is intended to allow investors to evaluate the resources a company has devoted to mitigation or adaptation (e.g., total amount expended for the year on mitigation or adaptation).

By including the words "in management's assessment" in the disclosure requirement, the SEC intended to alleviate registrants' concerns that they may have to attribute or allocate some portion of expenditures to mitigation and adaptation activities. For example, while a company might replace equipment with newer, more energy-efficient equipment and thus reduce GHG emissions, it may have taken into account many factors in its purchase decision. The company would only disclose such a purchase if management determined that it was the direct result of mitigation or adaptation activities.

Transition Plans

Registrants must "include quantitative and qualitative disclosure of material expenditures incurred and material impacts on financial estimates and assumptions as a direct result of the transition plan disclosed." This requirement is similar in nature to the disclosure of expenditures for mitigation or adaptation; however, it notably does not include the qualifier "in management's assessment." In the final rule, the SEC noted that if a transition plan must be disclosed because management has adopted a plan to address material climate-related risks, management would oversee actions undertaken in accordance with that plan and thus would

be able to identify expenditures that are a direct result of it. Registrants should also consider whether individually immaterial expenditures incurred because of the transition plan are, in the aggregate, material amounts that should be disclosed.

Targets or Goals

Registrants must disclose quantitative and qualitative information about "any material expenditures and material impacts on financial estimates and assumptions as a direct result of the [disclosed] target or goal or the actions taken to make progress toward meeting the [disclosed] target or goal."

The disclosures related to mitigation or adaptation, transition plans, and targets or goals, may overlap. If so, a registrant should choose the most appropriate location for the disclosure and add a cross-reference to it as needed. Similarly, if a registrant addresses material impacts on the financial estimates and assumptions for transition plans and targets or goals in its financial statement disclosures, it could provide cross-references to those disclosures.

Connecting the Dots

Certain elements of the requirements to disclose material expenditures and impacts are similar to some of the financial statement metrics that were outlined in the proposed rule. However, there are a few key differences. For example, under the final rule, the disclosures are:

- Provided outside the financial statements as opposed to within a financial statement footnote.
- Rooted in materiality rather than subject to a threshold of 1 percent of each financial statement line item.
- Limited to the actual expenditures incurred and impacts to estimates and assumptions that are the direct result of the activities disclosed.

The SEC has also acknowledged that there may be circumstances in which registrants will need to implement new systems or further develop their disclosure controls and procedures (DCPs) to accurately track and report on their material expenditures and impacts associated with climate-related risk mitigation and adaptation, transition plans, and targets or goals. Therefore, the final rule includes an accommodation under which registrants will have an additional year to comply with these requirements (see the Transition Provisions section for further details); however, registrants must develop and maintain DCPs to address these disclosures once applicable.

Materiality and Safe Harbor

Materiality

The final rule states that the definition of materiality used by a registrant should be consistent with that established by the U.S. Supreme Court; namely, "a matter is material if there is a substantial likelihood that a reasonable investor would consider it important when determining whether to buy or sell securities or how to vote or such a reasonable investor would view omission of the disclosure as having significantly altered the total mix of information made available." The final rule also emphasizes that materiality is based on facts and circumstances and takes into account qualitative and quantitative factors.

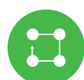
Connecting the Dots

Rather than introducing a new definition of materiality for climate-related disclosure purposes, the final rule uses the same investor-focused definition as that applied to the financial statements and other disclosures in SEC filings.

In a manner consistent with the preparation of MD&A, several of the final rule's provisions require registrants to apply a "reasonably likely" standard when evaluating their disclosure obligations related to future events that may or may not occur. Under this standard, registrants would make a "thoughtful and objective evaluation, based on materiality, including where the fruition of future events is unknown." Similarly, in a manner consistent with other SEC disaggregation requirements (e.g., 5 percent of current assets as required by Regulation S-X, Rule 5-02(8)), the final rule establishes a percentage threshold for certain disclosures (see the Financial Statement Disclosures section).

Safe Harbor

The final rule provides a safe harbor to protect registrants from liability for disclosures related to transition plans, scenario analysis, internal carbon pricing, and targets and goals, other than disclosures about historical facts.



Connecting the Dots

The SEC's existing safe harbor protections for forward-looking information generally do not apply to IPOs and certain other registrants or transactions. However, in response to feedback received on the proposed rule, the SEC extended the safe harbor protections solely for forward-looking climate-related disclosures to IPO transactions and certain other registrants or transactions.

Location, Periods Required, and Timing of Disclosure

Location

Except for the financial statement disclosures outlined above, domestic registrants must present other information, including GHG emissions, in a newly created section of Form 10-K (Item 6) immediately before MD&A or in another appropriate section of the filing (e.g., risk factors, MD&A). Foreign private issuers must present these disclosures in Form 20-F (Item 3.E) or in another appropriate section of the filing. Registrants should consider providing a cross-reference to the disclosures in Item 6 or Item 3.E, as applicable, if they are presented in a different section of the filing. Domestic registrants that elect to file their GHG emissions and any related assurance report as part of their second quarterly report would include this information in Item 1.B of Form 10-Q.

Connecting the Dots

By not limiting non-financial-statement disclosures to one specific section, the final rule gives registrants the flexibility to integrate the required information more easily into their existing disclosure framework. Certain sections (e.g., business, legal proceedings, risk factors, and MD&A) are natural fits for these disclosures. For example, registrants may wish to disclose in MD&A how identified climate-related risks actually or potentially materially affect their strategy, business model, and outlook or material expenditures associated with transition plans. MD&A is appropriate for such disclosures because it focuses on material events and uncertainties that are known or reasonably likely to materially affect a registrant's financial condition, results of operations, and cash flows. Similarly, registrants may want to add or enhance disclosures within the risk factors section to address how climate-related risks have materially affected or are reasonably likely to materially affect the business strategy, results of operations, or financial condition.

Periods Required

Registrants must include the disclosures discussed above for the same periods presented within the audited financial statements reflected in the filing. However, they do not need to provide them for comparative periods if such information was not disclosed or required in a previous SEC filing. As discussed in the Transition Provisions section, this allows registrants to prospectively adopt the disclosure requirements. Similarly, companies entering the public markets through an IPO would only need to provide disclosures corresponding to the most recent year reflected in the audited financial statements since information about prior years was not previously disclosed or required in an SEC filing.

Timing of Disclosure

Annual Reports

Registrants must provide disclosures other than those related to Scope 1 and Scope 2 GHG emissions in annual reports at the time of the filing. Domestic registrants may disclose emission information and any related assurance (1) in their second-quarter Form 10-Q for the year after the year to which the emission disclosures are related or (2) by amending their Form 10-K by the due date of their second-quarter Form 10-Q. If GHG emissions will be disclosed on a delayed basis, registrants must explicitly state their intent to incorporate by reference such disclosures within their annual report.

Connecting the Dots

Many registrants file their quarterly reports before the SEC's deadline. The option to amend the Form 10-K by the due date of the second quarterly report ensures that registrants do not need to delay their Form 10-Q filing if they normally file before the deadline and GHG emission disclosures are not available at that time. In this case, registrants could file their Form 10-Q without emission information and later amend their Form 10-K to include such disclosures as long as they filed their amended Form 10-K before the Form 10-Q deadline for the second fiscal quarter. For example, a calendar-year-end large accelerated filer that generally files its second-quarter Form 10-Q in July could do so without GHG emission disclosures and related assurance as long as it amends its Form 10-K within 40 days of the end of the second quarter (e.g., on or about August 9, depending on weekends and holidays) to include that information.

Foreign private issuers may provide the GHG emission disclosures and any related assurance in an amendment to their annual report on Form 20-F due 225 days after the end of their fiscal year. Such issuers are not permitted to provide this information in a Form 6-K because that document is furnished rather than filed.

Registration Statements

The GHG emission disclosures and related assurance would be required for the most recent fiscal year (and applicable comparative periods) for registration statements filed 225 days after the end of the fiscal year, whereas all other disclosures would be required for the fiscal years presented in the annual financial statements of the filing (see the Periods Required section). Registrants that file a registration statement (e.g., Form S-3 or Form F-3) after they file their annual report, but before they report any required GHG emission information and related assurance for the most recent year in that annual report, would be permitted to incorporate GHG emission disclosures and related assurance from the prior year.

ICFR and DCPs

Internal Controls

The disclosures outlined in the Financial Statement Disclosures section would be subject to a registrant's ICFR because of their inclusion in the audited financial statements. Accordingly, management's assessment of the effectiveness of ICFR and the auditor's report on the effectiveness of ICFR, which must be provided by large accelerated and accelerated filers (that are not EGCs[10]), would need to take into account the final rule's disclosure requirements.

Disclosure Controls and Procedures

DCPs are a broad set of controls that largely encompass ICFR and are designed to ensure that information that must be disclosed by the registrant in its filings or submissions under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within specified periods. Management must disclose its evaluation of DCPs and provide certifications related to the information disclosed in quarterly and annual reports. The disclosures, including GHG emission metrics, that would be required outside the financial statements would be subject to a registrant's DCPs and management certifications.

Connecting the Dots

As noted in the Transition Provisions section, a registrant will be required to obtain assurance over its GHG emission metrics, subject to phase-in provisions. An assurance report, whether limited or reasonable, about such metrics does not provide assurance over internal controls or DCPs. Nevertheless, a registrant is responsible for designing, implementing, and maintaining internal controls and DCPs over information relevant to the preparation and disclosure of these metrics because they remain subject to the registrant's management certifications. These internal controls and DCPs are likely to be newly designed and implemented by the registrant given that this is the first time the disclosures are required in SEC filings. Registrants should also consider the need for designing and implementing controls over any new systems that may be implemented related to these disclosures.

Audit and Assurance Considerations

Audit Considerations

A registrant's financial statement disclosures would be subject to existing audit requirements for financial statements and ICFR. It is important that registrants have robust accounting policies in place, including for the climate-related financial statement disclosures, since they frame management's basis for the preparation of the financial statements and related disclosures. As noted in the Financial Statement Disclosures section, these disclosures are subject to certain thresholds (e.g., 1 percent of pretax income or 1 percent of total shareholders' equity, subject to de minimis thresholds), which may affect (1) the registrant's accounting policies, (2) the design of relevant controls, and (3) the audit procedures designed by the registrant's auditors, which may include testing procedures for obtaining sufficient, appropriate audit evidence for the financial statement disclosures and relevant internal controls associated with the final rule's disclosure requirements. These requirements apply beginning with audits for the year ending December 31, 2025, for calendar-year-end large accelerated filers (see the Transition Provisions section).

[10] Management's assessment under Section 404(a) of the Sarbanes-Oxley Act of 2002 may still be required for EGCs.

Audit Considerations Over Other Information

Registrants must also disclose material assumptions and estimates used to prepare other information in SEC filings (e.g., transition plans and climate-related targets and goals that are disclosed because they materially affect, or are reasonably likely to materially affect, the registrant's business, results of operations, or financial condition). While the final rule includes safe harbor provisions for transition plans and climate-related targets and goals, the registrant's auditors maintain a responsibility to read other information (e.g., disclosures about transition plans and climate-related targets and goals) in SEC filings to consider whether the information or the manner of its presentation is materially inconsistent with the financial statements.

Assurance Considerations

GHG Emission Assurance Considerations

As discussed in the Affected Companies and Filings section, certain registrants are required to disclose Scope 1 and Scope 2 GHG emissions if material. These metrics would be subject to limited assurance during a phase-in period for large accelerated filers and accelerated filers, followed by reasonable assurance for large accelerated filers. The assurance report covering the disclosure of Scope 1 and Scope 2 GHG emissions must be included within the relevant filing. Nonaccelerated filers, SRCs, and EGCs are not required to disclose GHG emission metrics or obtain assurance over such metrics.

Connecting the Dots

The final rule states that the "primary difference between the two levels of assurance relates to the nature, timing, and extent of procedures required to obtain sufficient, appropriate evidence to support the limited assurance conclusion or reasonable assurance opinion." While the final rule provides examples of procedures performed under a limited assurance engagement and a reasonable assurance engagement, the nature, timing, and extent of procedures performed depends on the GHG emission assurance provider's judgment.

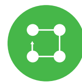
The assurance report will provide assurance over the relevant subject matter, which is expected to be limited to the Scope 1 and Scope 2 GHG emission metrics, including any supporting disclosures (e.g., selected organizational boundary and description of assumptions and methods used). The final rule establishes the minimum level of assurance that must be obtained. Registrants may voluntarily obtain reasonable assurance if it is not already required.

Connecting the Dots

While the final rule does not prescribe specific assurance standards, it imposes certain minimum requirements for such standards, including that they be publicly available at no cost or widely used for GHG emission assurance, established with appropriate due process, and subject to public comment. Such requirements are consistent with the assurance standards, for example, issued by the AICPA, PCAOB, and IAASB.

Finally, under the final rule, a GHG emission assurance provider would have to (1) possess the appropriate competence and capabilities to perform the engagement in accordance with the professional standards and applicable legal and regulatory requirements and (2) be independent from the registrant. The form and content of the assurance report must be consistent with the requirements in the assurance standard(s) used by the provider, which would generally include information about the scope of the engagement, the specific assurance standard(s) used, management's responsibility for the information, and the provider's responsibility. The registrant would also be required to disclose additional information, including (1) whether the GHG emission assurance provider itself is subject to

any oversight inspection program and, if so, which program(s) (e.g., the AICPA's peer review program) and (2) whether the GHG emission assurance engagement is included within the scope of authority of such oversight program.



Connecting the Dots

The final rule requires registrants to apply a principles-based approach for selecting the GHG emission assurance provider; however, the provider must have the relevant competence and capabilities to perform the engagement in accordance with assurance standards and applicable legal and regulatory requirements. In addition, the provider must maintain independence from the registrant and its affiliates. The independence requirements under the final rule are similar to those already established for independent registered public accounting firms and applied by a registrant's auditors.

Voluntary GHG Emission Assurance Considerations

The final rule also requires a registrant to disclose, in its SEC filings, certain details about the assurance engagement if the registrant has (1) disclosed GHG emission metrics in its SEC filing and (2) voluntarily obtained assurance over those metrics if the registrant is not required to obtain assurance over them under the final rule. If a registrant obtains voluntary assurance over its GHG emission metrics but does not disclose those metrics within its SEC filing, the voluntary assurance disclosures listed below would not apply.

The disclosures would apply to large accelerated filers and accelerated filers that are required to disclose their GHG emission metrics and voluntarily obtain assurance before the first period in which they must do so under the final rule (e.g., 2029 for large accelerated filers and 2031 for accelerated filers).

Connecting the Dots

If Scope 1 and Scope 2 GHG emission metrics are material to the registrant, disclosure within its SEC filing of the GHG emission metrics is required for the fiscal year beginning in 2026 for large accelerated filers. If the registrant obtains a voluntary assurance report for the GHG emission metrics that are disclosed in the SEC filing for the fiscal year beginning in 2026, the disclosures discussed below are required because the registrant does not have to obtain assurance until the fiscal year beginning in 2029.

A registrant may obtain voluntary assurance for several reasons, including compliance with other laws and regulations. Its disclosures would include:

- Identification of the GHG emission assurance provider.
- A description of the assurance standard (e.g., AICPA, PCAOB, or IAASB).
- A description of the level (e.g., limited or reasonable) and scope (i.e., relevant subject matter and criteria) of assurance services provided.
- A brief description of the results of the assurance services.
- Whether the GHG emission assurance provider has any material business relationships with or has provided any material professional services to the registrant.
- Whether the GHG emission assurance provider is subject to any oversight inspection program and, if so, which program (or programs) and whether the assurance services over GHG emission metrics are included within the scope of authority of such oversight inspection program.

The final rule does not require registrants to file or furnish a voluntary assurance report.

Connecting the Dots

The disclosures listed above apply to nonaccelerated filers, SRCs, and EGCs if they have disclosed GHG emission metrics within their SEC filing and voluntarily obtained assurance over those metrics.

Affected Companies and Filings

Affected Companies

All domestic and foreign registrants, except for asset-backed issuers, must provide the disclosures. However, nonaccelerated filers, SRCs, and EGCs are exempt from the Scope 1 and Scope 2 GHG emission disclosure requirements. Although foreign private issuers are permitted to prepare financial statements by using IFRS Accounting Standards, they must nevertheless provide the climate-related disclosures in such financial statements.

Connecting the Dots

While the SEC did not recognize the use of other guidance (e.g., the IFRS® Sustainability Disclosure Standards) as an alternative to the disclosure requirements in the final rule, Commissioner Caroline Crenshaw recommended that the SEC explore this option in the future.

Further, the disclosures would not be required for private operating companies (targets) merging with a registrant in a "business combination transaction, as defined by Securities Act Rule 165(f), involving a securities offering registered on Forms S-4 and F-4." Financial statements and other information for targets are included in proxy statements or Form S-4 registration statements filed in advance of the transaction. However, the climate-related disclosures are required if targets are registrants that are already subject to such disclosure.

Similarly, registrants must file the financial statements of significant acquirees in accordance with Regulation S-X, Rule 3-05, and of significant investees in accordance with Regulation S-X, Rule 3-09. While these financial statements are generally subject to Regulation S-X, the climate-related financial statement disclosures are not required in the separate financial statements of significant acquirees or significant investees unless they are registrants already subject to such disclosures.

Connecting the Dots

While registrants are not required to provide climate-related information about targets or acquirees before the close of an acquisition, once a forward acquisition closes, and the results of the target or acquiree are reflected in the financial statements of the registrant, the registrant's climate-related disclosures would need to take into account and address the operations of the target or acquiree. The final rule does not explicitly provide a transition period for significant acquisitions in a manner similar to that currently provided for management's assessment of ICFR.

Filings

The climate-related disclosures must be provided in annual reports filed on a Forms 10-K and 20-F for domestic registrants and foreign private issuers, respectively. However, the disclosures are not required in an annual report or registration statement on Form 40-F filed by Canadian registrants or annual reports on Form 11-K for employee stock purchase, savings, or similar plans. Registrants may elect to include their annual Scope 1 or Scope 2 emission disclosures (or both) within the Form 10-Q for the second fiscal quarter of the following year; however, there are no additional interim reporting requirements related to the final rule. The climate-related disclosures are also required in registration statements on Forms 10, 20-F, S-1, S-3, S-4, S-11, F-1, F-3, and F-4.

Transition Provisions

The final rule was scheduled to become effective May 28, 2024; however, the SEC has voluntarily stayed the rule's effective date pending judicial review. Depending on when the legal challenges are resolved, the mandatory compliance dates noted below may be retained or delayed. For a registrant with a calendar year-end, the mandatory compliance dates are as follows:

Registrant Type	Financial Statement Disclosures and All Other Disclosures Except Material Expenditures and Impacts and GHG Emission Disclosures	Disclosures About Material Expenditures and Impacts[11]	Scope 1 and Scope 2 GHG Emission Disclosures[12]	Assurance on Scope 1 and Scope 2 GHG Emission Disclosures[13]
	Annual Reports or Registration Statements That Include Financial Statements for the Year Ending December 31:			
Large accelerated filer	2025	2026	2026[14]	Limited assurance — 2029 Reasonable assurance — 2033
Accelerated filer (excluding SRCs and EGCs)	2026	2027	2028[15]	Limited assurance — 2031 Reasonable assurance — Not required
Nonaccelerated filer, SRCs, and EGCs	2027	2028	Not required	Not required[16]

Non-calendar-year-end registrants would provide climate-related disclosures for the fiscal year beginning in the calendar years shown in the table above. For instance, a large accelerated filer with a June 30 year-end would be required to first provide all disclosures except those about material expenditures and impacts as well as GHG emissions for its annual report for the year ending June 30, 2026, because that fiscal year began in calendar year 2025.

As the example below illustrates, registrants are not required to provide comparative information unless climate-related information for those years was previously disclosed or required in an SEC filing.

[11] See the Material Expenditures and Impacts discussion.

[12] As discussed in the Timing of Disclosure section, domestic registrants will not be required to provide this information before their second fiscal quarterly report for the following year would otherwise be due or, in the case of a registration statement or foreign private issuer, 225 days after the end of the fiscal year.

[13] See footnote 12.

[14] If registrants voluntarily obtain assurance on Scope 1 and Scope 2 GHG emission disclosures before such assurance is required, they must provide the disclosures discussed in the Voluntary GHG Emission Assurance Considerations section.

[15] See footnote 14.

[16] If registrants voluntarily obtain assurance on Scope 1 and Scope 2 GHG emission disclosures that they elected to disclose in an SEC filing, they must provide the disclosures discussed in the Voluntary GHG Emission Assurance Considerations section.

Example 3

Registrant A is a large accelerated filer with a calendar year-end. Registrant A's financial statements for the year ending December 31, 2025, include balance sheet information for the past two fiscal years and income statement information for the past three fiscal years. Further, A must provide climate-related disclosures in its financial statements for the year ending December 31, 2025; however, A only needs to present these disclosures as of and for the year ending December 31, 2025. That is, A does not have to include the disclosures for any periods in which they were not previously provided or required in an SEC filing. Registrant A's financial statements for the year ending December 31, 2026, would include these disclosures as of and for the years ending December 31, 2026 and 2025, and its financial statements for the year ending December 31, 2027, would include them as of December 31, 2027 and 2026, and for the years ending December 31, 2027, 2026, and 2025.

Similarly, when A reports its GHG emissions for the year ending December 31, 2026, it would not be required to provide GHG emissions for previous years unless such information was previously disclosed in an SEC filing. When A reports its GHG emissions for the year ending December 31, 2027, it would also provide GHG emissions for the year ending December 31, 2026, because it previously included such information in an SEC filing. This concept similarly applies to other climate-related disclosures outside the financial statements.

All registrants, regardless of filing status, have to tag the required financial statement disclosures by using Inline eXtensible Business Reporting Language (iXBRL) on the basis of existing SEC regulations under which iXBRL tagging is required for financial statements and related footnotes. The final rule also requires the tagging of any disclosures provided outside the financial statements, including material expenditures and impacts and GHG emissions. Large accelerated filers will not be required to tag information outside the financial statements until 2026, while other filers must tag information when the disclosures are required, as indicated in the table above.

Comparison With Other Climate Disclosure Regulations

The final rule follows on the heels of numerous recent voluntary and mandatory climate and ESG-related disclosure requirements that have been issued or adopted in the last two years, including the IFRS® Sustainability Disclosure Standards, the E.U. Corporate Sustainability Reporting Directive (CSRD) and related European Sustainability Reporting Standards (ESRS), and the California climate legislation. Like these regulations, the SEC's final rule leverages existing disclosure frameworks such as those established by the GHG Protocol and the Task Force on Climate-Related Financial Disclosures (TCFD).[17] However, while the IFRS Sustainability Disclosure Standards and the CSRD address sustainability matters broadly (including climate), the SEC's final rule addresses climate-related disclosures specifically.

Connecting the Dots

As discussed in the Affected Companies section, the SEC did not recognize the use of other standards (e.g., the IFRS Sustainability Disclosure Standards) as an alternative to the final rule's disclosure requirements. Similarly, it remains to be seen whether the final rule's disclosures would satisfy the requirements of other jurisdictions given that there are substantive differences between the disclosures' nature, timing, and scope. However, SEC Chair Gary Gensler recently observed that "materiality also has been incorporated in many international disclosure standards" and specifically noted that it is integrated throughout the IFRS Sustainability Disclosure Standards.

The table below summarizes selected aspects of certain disclosure regulations (not all-inclusive) and compares them with the final rule's requirements.

[17] Upon releasing the 2023 status report on October 12, 2023, the TCFD was disbanded, and the Financial Stability Board asked the IFRS Foundation to assume the role of monitoring the progress of corporate climate-related disclosures.

Disclosure Regulation	Final Rule[18]	CSRD/ESRS[19]	IFRS Sustainability Disclosure Standards[20]	California Climate Legislation (SB-253 and SB-261)[21]
First mandatory reporting (assuming calendar year-end)	Starting with 2025 (due in 2026), depending on filer status and disclosure requirement	Starting with 2024 (due in 2025), depending on entity structure and size	IFRS S1 and IFRS S2[22] are effective January 1, 2024, subject to jurisdictional mandate	SB-253: 2025 (due in 2026) SB-261: Due January 1, 2026
Affected companies	Public companies registered with the SEC	Public and private companies in (or listed in) the E.U., including subsidiaries of non-E.U. companies when certain criteria are met[23]	Subject to jurisdictional regulatory adoption	U.S.-based public and private companies and non-U.S.-based companies (with a U.S. subsidiary) that do business in California, subject to revenue thresholds[24]
GHG emission disclosures	Scopes 1 and 2 required if material for certain registrants	Scopes 1, 2, and 3, subject to materiality assessment	Scopes 1, 2, and 3, subject to materiality assessment	SB-253: Scopes 1, 2, and 3 required
Climate-related risks and opportunities disclosure	Climate-related risks required; opportunities optional	Climate-related impacts, risks, and opportunities required	Climate-related risks and opportunities required	SB-261: Climate-related risks and opportunities required
Scenario analysis	Not required[25]	Required	Required	SB-261: Required
Financial statement disclosure required by climate-related regulation	Yes	No	No	No
Assurance on climate-related information outside the financial statements	Limited assurance for Scopes 1 and 2, followed by reasonable assurance for certain registrants	Limited assurance for reported sustainability information (including GHG emissions) from the first year of reporting[26]	Not mandated by the standards; subject to jurisdictional authority discretion	SB-253: Limited assurance, followed by reasonable assurance for Scopes 1 and 2; Scope 3 assurance to be determined
Penalties for noncompliance	Yes — Disclosures required as part of Regulations S-X and S-K; failure to comply may result in action from SEC Division of Enforcement	Subject to E.U. member state transposition and local laws	Not mandated by the standards; subject to jurisdictional authority discretion	SB-253: Up to $500,000 per reporting year for failure to meet requirements SB-261: Up to $50,000 per reporting year for failing to report or insufficient reporting

[18] The final rule states that when determining the required disclosures, a registrant should use the definition of materiality established by the U.S. Supreme Court. See the Materiality and Safe Harbor section for more information. The first mandatory compliance dates for the final rule may be impacted by ongoing juridical review. Refer to the Implementation Considerations section for further details.

[19] The CSRD requires registrants to assess materiality from both an impact and a financial perspective (a concept known as "double materiality").

[20] In accordance with IFRS S1, "[a]n entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if the information is not material" on the basis of an assessment of materiality.

[21] SB-253, the *Climate Corporate Data Accountability Act*, focuses on the reporting of GHG emissions while SB-261, *Greenhouse Gases: Climate-Related Financial Risk*, focuses on the reporting of climate-related financial risks and the measures a company has adopted to reduce and adapt to such risks.

[22] IFRS S1, *General Requirements for Disclosure of Sustainability-Related Financial Information*, and IFRS S2, *Climate-Related Disclosures*.

[23] For a discussion of the criteria under which non-E.U. entities would be within the scope of the CSRD, see Deloitte's August 17, 2023 (updated February 23, 2024), *Heads Up*.

[24] SB-253 applies to public and private U.S. businesses with total annual revenues exceeding $1 billion and that do business in California. SB-261 applies to public and private U.S. businesses, excluding those in the insurance industry, with total annual revenues exceeding $500 million and that do business in California. For further discussion of the scope of these bills, see Deloitte's October 10, 2023 (updated December 19, 2023), *Heads Up*.

[25] If used by the registrant and results yield material impacts, disclosure of scenario analysis is required.

[26] The European Commission (EC) will perform an assessment to determine whether moving from limited to reasonable assurance is feasible for auditors and companies. After this assessment, the EC will adopt standards for reasonable assurance no later than October 1, 2028.

Connecting the Dots

Of the regulations discussed above, the SEC final rule is the only one that (1) excludes Scope 3 GHG emission disclosures and (2) explicitly requires registrants to provide disclosures within the audited financial statements. Under the CSRD and related ESRS, companies are required to include the sustainability statement in a separate section of their management report, which is similar to MD&A. They *may* provide certain disclosures inside the financial statements and incorporate them by cross-reference into the sustainability statement. The IFRS Sustainability Disclosure Standards require an entity to include sustainability-related financial disclosures in its general-purpose financial reports (e.g., management report or MD&A) but allows it to provide these disclosures by cross-reference to another report published by the entity.

Key Changes From the Proposed Rule

The SEC received over 24,000 comment letters on the proposed rule, and in many of those letters, registrants expressed significant concerns. The final rule addresses certain of those concerns by:

- *Lengthening the adoption timeline* — The adoption timeline under the proposed rule was as short as one year for large accelerated filers. The final rule extends this timeline, giving large accelerated filers nearly (1) two years to provide most disclosures, (2) three years to provide GHG emission information and certain other disclosures, (3) six years to obtain limited assurance over GHG emissions, and (4) for large accelerated filers, ten years to obtain reasonable assurance over GHG emissions.
- *Establishing a materiality threshold for Scope 1 and Scope 2 GHG emission metrics* — In the final rule, the SEC explicitly states that registrants can omit Scope 1 and Scope 2 GHG emission disclosures if such information is not material. Under the proposed rule, all registrants would have been required to provide this information.
- *Delaying the timing of Scope 1 and Scope 2 GHG emission disclosures* — The final rule allows domestic registrants to provide GHG emission disclosures and any related assurance at the same time as they file their second-fiscal-quarter report for the following year rather than in the annual report for that year, as originally proposed.
- *Dropping Scope 3 GHG emission disclosure requirements* — In a significant departure from the proposed rule, the final rule does not require registrants to disclose Scope 3 GHG emissions.
- *Providing greater flexibility in determining organizational boundaries* — The SEC received numerous comments on its proposal to align GHG emission reporting with the entities and operations included in the consolidated financial statements. Respondents noted, for example, that this requirement would increase the compliance burden for companies applying an operational control approach under the GHG Protocol. The final rule does not require registrants to use a specific method for determining organizational boundaries; instead, they must disclose any material differences between such boundaries and the consolidated financial statements.
- *Exempting SRCs, EGCs, and nonaccelerated filers from GHG emission disclosures and related assurance* — While the proposed rule would have required all registrants to provide GHG emission disclosures, the final rule exempts SRCs, EGCs, and nonaccelerated filers from having to disclose GHG emissions or provide any related assurance.
- *Adding materiality qualifiers to disclosures outside the financial statements* — The final rule is less prescriptive and limits the information required about a registrant's climate-related activities disclosed outside the financial statements (e.g., disclosures related to its climate targets and goals) to only those matters that are material or reasonably likely to become material.

- *Eliminating the requirement to evaluate financial statement metrics on a line-item-by-line-item basis* — The SEC received a significant amount of feedback indicating that the 1 percent threshold related to discussing financial statement metrics on a line-item-by-line-item basis would be costly to implement and would result in overly granular disclosures. Accordingly, the SEC modified this requirement so that registrants would only have to disclose the financial statement effects of expenditures and losses incurred and capitalized costs and charges when amounts exceed 1 percent of pretax income or total shareholders' equity, subject to a de minimis threshold, rather than 1 percent of each line item.
- *Limiting transition-activity financial statement information* — The SEC received feedback that its proposed disclosure requirements for financial statement metrics related to transition activity would be costly to implement given the processes registrants would need to establish for identifying and isolating such costs. Accordingly, the SEC modified this requirement so that registrants would solely consider the costs and expenses associated with carbon offsets and RECs that are material to their targets or goals in the financial statements as well as material impacts to estimates and assumptions due to disclosed transition plans and targets. Registrants would provide other material impacts of transition plans in disclosures outside the financial statements.
- *Removing provisions permitting disclosure of climate-related opportunities* — The proposed rule allowed, but did not require, a registrant to disclose information about the impacts of climate-related opportunities and the registrant's processes for identifying, assessing, and managing such opportunities. While the final rule removes these explicit provisions, a registrant may still elect to disclose such information or provide any other voluntary disclosures.
- *Dropping disclosure requirements about director expertise* — The final rule does not retain the proposed requirement to disclose whether any director has expertise or experience in managing climate-related risks.
- *Eliminating interim disclosure requirements* — Unlike the proposed rule, the final rule does not require registrants to disclose, within their quarterly Form 10-Qs (or Form 6-K for a foreign private issuer that does not report on domestic forms), material changes to their annual climate-related disclosures.

Implementation Considerations

While 97 percent of Fortune 500 companies mentioned climate change in their most recent annual report, they primarily addressed general risk factors associated with the physical effects of climate change, increased regulation, and reputational risk. The final rule significantly expands a registrant's disclosure requirements, and the vast majority of companies will need to use the transition period to develop their reporting capabilities, data requirements, and processes and controls.

On April 4, 2024, the SEC voluntarily stayed the effective date of the final rule pending judicial review of petitions challenging it, which have been consolidated for review by the U.S. District Court of Appeals for the Eighth Circuit. The SEC stated that it "will continue vigorously defending the [climate rule's] validity in court" but issued the stay to "facilitate the orderly judicial resolution of" challenges presented against the climate rule and to avoid "potential regulatory uncertainty if registrants were to become subject to the [climate rule's] requirements" before the legal challenges were settled. The stay does not reverse or change any of the final rule's requirements nor does it affect the SEC's existing 2010 interpretive release on climate-change disclosures. Since the outcome of the litigation is unknown and the review may take several months or longer, it is uncertain whether the SEC will retain or extend the final rule's existing mandatory compliance dates. Irrespective of this uncertainty, companies will need to make decisions related to implementing the rule's requirements.

Currently, many SEC registrants voluntarily disclose climate information, and beginning in 2025, certain companies will be subject to the E.U. CSRD and the California climate legislation. Beginning with their first year of reporting, companies subject to the E.U. CSRD will need to provide more extensive disclosures than they would under the SEC climate rule, including obtaining assurance over all their climate disclosures rather than only those pertaining to GHG emissions. If the SEC climate rule is ultimately delayed, many SEC registrants will disclose climate-related information in E.U. CSRD or California reports before having to provide comparable disclosures in their SEC filings. Therefore, as they prepare for reporting under the E.U. CSRD or the California climate legislation (or provide voluntary disclosures), companies should consider their data, governance, processes, and controls over climate-related information given that they may need to disclose the same or similar information in future SEC filings.

In a manner similar to the adoption of other significant accounting or reporting changes, successful implementation of the final rule's requirements starts with a clear, well-developed plan. Companies should consider taking action related to the following:

- *Establish or refine management responsibilities* — Educate management and employees about the final rule, and build organizational capacity. Establish or refine management oversight, and define clear roles and responsibilities.
- *Establish or refine oversight at the board level* — Educate the board of directors about the final rule. Establish or refine the role of the board and its committees in overseeing climate risks and related disclosures, and incorporate such responsibilities into charters.
- *Understand the current state of climate disclosure and information* — Inventory climate-related information that has already been gathered or disclosed, and understand the policies, data, processes, and controls over this information.
- *Identify disclosure and control gaps* — Identify and assess gaps related to data, controls, and reporting, including disclosures both in and outside the financial statements.
- *Assess reporting and data management* — Consider resources (e.g., people, processes, technologies) needed for meeting reporting deadlines.
- *Prepare for assurance (if applicable)* — Understand assurance requirements, and develop plans to provide sufficient support.
- *Develop an action plan* — Create a detailed action plan for implementing the final rule and integrate it with plans for applying other climate reporting requirements (e.g., the CSRD) that are already underway (if applicable).
- *Execute* — Begin executing each step of the action plan while adapting it for future developments.

Other Resources

The following additional Deloitte resources may be helpful as companies assess their approach to climate-related disclosures:

- ESG Financial Reporting Resources
- *Heads Up — Executive Summary of the SEC's Landmark Climate Disclosure Rule*
- *Roadmap — Greenhouse Gas Protocol Reporting Considerations*
- *Heads Up — #DeloitteESGNow — Frequently Asked Questions About the E.U. Corporate Sustainability Reporting Directive*

- *Heads Up — #DeloitteESGNow — FASB Makes Additional Tentative Decisions Related to the Accounting for Environmental Credit Programs*
- *Heads Up — #DeloitteESGNow — The Sweeping Impacts of California's Climate Legislation*
- *Heads Up — #DeloitteESGNow — Global ESG Disclosure Standards Converge: ISSB Finalizes IFRS S1 and IFRS S2*
- *Heads Up — #DeloitteESGNow — Using the COSO Framework to Establish Internal Controls Over Sustainability Reporting (ICSR)*

Contacts

Eric Knachel
Audit & Assurance
Partner
Deloitte & Touche LLP
+1 203 761 3625
eknachel@deloitte.com

Laura McCracken
Audit & Assurance
Partner
Deloitte & Touche LLP
+1 212 653 5738
lamccracken@deloitte.com

Kristen Sullivan
Audit & Assurance
Partner
Deloitte & Touche LLP
+1 203 708 4593
ksullivan@deloitte.com

Antonia Chong
Audit & Assurance
Managing Director
Deloitte & Touche LLP
+1 212 436 6361
achong@deloitte.com

Shelby Murphy
Audit & Assurance
Managing Director
Deloitte & Touche LLP
+1 203 761 3160
shemurphy@deloitte.com

Doug Rand
Audit & Assurance
Managing Director
Deloitte & Touche LLP
+1 202 220 2754
dorand@deloitte.com

Kali Nosek
Audit & Assurance
Senior Manager
Deloitte & Touche LLP
+1 312 486 0369
kalinosek@deloitte.com

Zach Poncik
Audit & Assurance
Senior Manager
Deloitte & Touche LLP
+1 713 982 4104
zponcik@deloitte.com

Mike Shonce
Audit & Assurance
Senior Manager
Deloitte & Touche LLP
+1 313 394 5694
mshonce@deloitte.com

Jared Bennis
Audit & Assurance
Manager
Deloitte & Touche LLP
+1 305 372 3210
jabennis@deloitte.com

Doug Van House
Audit & Assurance
Manager
Deloitte & Touche LLP
+1 619 237 6842
dvanhouse@deloitte.com

Dbriefs for Financial Executives

We invite you to participate in Dbriefs, Deloitte's live webcasts that give you valuable insights into important developments affecting your business. Topics covered in the Dbriefs for Financial Executives series include financial reporting, tax accounting, business strategy, governance, and risk. Dbriefs also provide a convenient and flexible way to earn CPE credit — right at your desk.

Subscriptions

To subscribe to Dbriefs, or to receive accounting publications issued by Deloitte's Accounting and Reporting Services Department, please visit My.Deloitte.com.

The Deloitte Accounting Research Tool

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosure literature. It contains material from the FASB, EITF, AICPA, PCAOB, and SEC, in addition to Deloitte's own accounting manuals and other interpretive guidance and publications.

Updated every business day, DART has an intuitive design and powerful search features that enable users to quickly locate information anytime, from any device and any browser. Users can also work seamlessly between their desktop and mobile device by downloading the DART by Deloitte mobile app from the App Store or Google Play. While much of the content on DART is available at no cost, subscribers have access to premium content, such as Deloitte's *FASB Accounting Standards Codification Manual*. DART subscribers and others can also subscribe to *Weekly Accounting Roundup*, which provides links to recent news articles, publications, and other additions to DART. For more information, or to sign up for a free 30-day trial of premium DART content, visit dart.deloitte.com.

Heads Up is prepared by members of Deloitte's National Office as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

The services described herein are illustrative in nature and are intended to demonstrate our experience and capabilities in these areas; however, due to independence restrictions that may apply to audit clients (including affiliates) of Deloitte & Touche LLP, we may be unable to provide certain services based on individual facts and circumstances.

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/us/about to learn more about our global network of member firms.

Copyright © 2024 Deloitte Development LLC. All rights reserved.

Follow us @DeloitteAcctg