



iGAAP in Focus

Sustainability reporting

SEC adopts rule that requires climate-related disclosures

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This *iGAAP in Focus* outlines the final rule titled *The Enhancement and Standardization of Climate-Related Disclosures for Investors* that was adopted by the US Securities and Exchange Commission on 6 March 2024.

- The SEC has adopted a final rule that requires registrants to provide climate-related disclosures in their annual reports and registration statements
- Disclosures required in the financial statements include:
 - financial statement impacts and material impacts on entities' financial estimates and assumptions due to severe weather events and other natural conditions
 - a roll-forward of carbon offsets and renewable energy credits or certificates (RECs), if carbon offsets and RECs are a material component of meeting the entity's climate-related targets and goals
- Disclosures required outside of the financial statements include:
 - for large accelerated filers and accelerated filers, material Scope 1 and Scope 2 greenhouse gas (GHG) emissions, with 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
- The final rule will become effective 60 days after publication in the Federal Register, and compliance will be phased in from 2025 to 2033.

For more information please see the following websites:

www.iasplus.com
www.deloitte.com

Background

In March 2022, the SEC proposed a rule titled *The Enhancement and Standardization of Climate-Related Disclosures for Investors* that proposed to require registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements.

The SEC received more than 24,000 comment letters, including more than 4,500 unique letters, in response to the proposed rule. After considering the comments received, the SEC decided to make some key changes to the proposals before adopting the final rule.

Observation

The key changes between the proposed rule and the final rule include:

- A materiality threshold has been introduced for Scope 1 and Scope 2 GHG emissions and registrants are allowed to delay disclosure of such information, and any related attestation, and to file it by the due date of their second fiscal quarterly report for the following year
- Flexibility has been introduced in determining the organisational boundary for Scope 1 and Scope 2 GHG emissions, with appropriate disclosure of how the boundary differs from the scope of the consolidated financial statements
- The Scope 3 GHG emission disclosure requirement has been removed
- The requirement to evaluate financial statement impacts on a line-item-by-line-item basis has been removed, and instead disclosure of amounts reflected directly in the financial statements is required when such aggregate amounts exceed 1% of pre-tax income or total shareholders' equity, subject to a de minimis threshold
- More time has been provided to adopt the requirements by giving large accelerated filers nearly:
 - 2 years to provide most disclosures
 - 3 years to provide GHG emission information and certain other disclosures
 - 6 years to obtain limited assurance over GHG emissions
- Smaller reporting companies (SRCs), emerging growth companies (EGCs) and non-accelerated filers have been exempted from the requirement to provide GHG emission disclosures and related attestation.

The key components of the climate disclosure requirements

The final rule requires registrants to disclose the following in the financial statements:

Severe weather and other natural condition financial statement impacts	<ul style="list-style-type: none">• The aggregate expenditures incurred and losses recognised in the income statement as a result of severe weather events and other natural conditions (e.g. hurricanes, tornadoes, flooding, sea level rise), subject to a threshold of the greater of 1% of the absolute value of pre-tax income (loss) or USD100,000• The aggregate capitalised costs and charges recognised on the statement of financial position because of severe weather events and other natural conditions, subject to a threshold of the greater of 1% of the absolute value of stockholders' equity or deficit, or USD500,000• Entities are required to determine the aggregate amounts in the bullets above before consideration of any recoveries such as insurance, which would be disclosed separately, and are also required to disclose the amounts recognised in each financial statement line item affected• Entities are not required to attribute the cause of severe weather events or other natural conditions to climate change; instead, they are required to include the entire amount of the expenditures, losses, capitalised costs, charges or recoveries in the disclosure when they determine that the severe weather event or other natural condition was a significant contributing factor in recognising such amounts.
Carbon offset and renewable energy credit (REC) information	If carbon offsets and RECs are material to an entity's plan to achieve disclosed climate-related targets or goals (e.g. net-zero commitment), the entity is required to disclose a roll-forward of the beginning and ending balances, with separate disclosure of the aggregate amount expensed, the aggregate amount capitalised and the aggregate amount of losses incurred related to such instruments during the year. Entities are required to also disclose which financial statement line items are affected and the accounting policy for such instruments.
Estimates and assumptions	Whether and, if so, how severe weather events and other natural conditions and disclosed climate-related targets or transition plans materially affected estimates and assumptions reflected in the financial statements.

In addition, the final rule requires entities to provide quantitative and qualitative disclosures outside the audited financial statements in certain SEC filings as follows:

- **GHG emission metrics (required if material)**—Scope 1 GHG emissions (i.e. those from a registrant’s owned or controlled operations) and Scope 2 GHG emissions (i.e. those from purchased or acquired electricity, steam, heat or cooling) on the basis of metric tons of carbon dioxide equivalent separately for each constituent GHG that is individually material. These disclosures are required separately for Scope 1 and 2 on a gross basis (i.e. before consideration of any offsets). Registrants are required to disclose whether and, if so, how the organisational boundary materially differs from the entities and operations reflected in the consolidated financial statements
- **governance**—how the entity’s board of directors (or sub-committee) and management oversee the assessment and management of climate-related risks, including progress toward any disclosed climate-related target, goal or transition plan
- **strategy, business model and outlook:**
 - how climate-related risks have materially affected or are reasonably likely to materially affect the business strategy, results of operations or financial condition
 - how identified climate-related risks actually or potentially materially affect the entity’s strategy, business model and outlook
 - if an entity uses an internal carbon price and this use is material to how it evaluated climate-related risk, such price and certain other information
 - if the entity 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, a description of the scenarios, assumptions and projected financial impacts
 - if an entity has adopted a climate transition plan, a description of such plan and the entity’s progress over time
- **risk management**—the entity’s processes for detecting, evaluating and managing climate-related risks and whether those processes are integrated into the entity’s broader enterprise risk management programme
- **targets and goals**—if climate-related targets or goals materially affect or are reasonably likely to materially affect the business, results of operations or financial condition, information about such targets or goals including:
 - the scope of activities encompassed
 - the time horizon envisioned
 - the baseline against which progress will be tracked (if applicable)
 - how the entity plans to achieve its targets or goals
 - an update each year of how the entity is progressing relative to its targets or goals and how such progress has been achieved
 - information about carbon offsets or RECs if they are a material component of the plan to achieve climate-related targets or goals
- **material expenditures and impacts**—quantitative and qualitative information about material expenditures and impacts on financial estimates and assumptions that are the direct result of:
 - mitigation of or adaption to climate-related risks
 - disclosed transition plans or
 - the disclosed targets or goals or actions taken to achieve or progress toward those targets or goals.

Observation

Like other sustainability standards and frameworks that have been published over the last two years (such as the [standards of the International Sustainability Standards Board \(ISSB\)](#), the [European Sustainability Reporting Standards \(ESRS\)](#) and the [California climate legislation](#)), the SEC’s final rule leverages existing disclosure frameworks such as those established by the GHG Protocol and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). However, while the ISSB standards and the ESRS address sustainability matters in a broad manner, the SEC’s final rule only addresses climate-related disclosures. The SEC did not recognise any other standards (e.g the ISSB standards) as an alternative to the disclosures required by the final rule but may explore this in the future.

Location, timing, materiality and safe harbour

Registrants are required to 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 in their second-quarter Form 10-Q¹ for the year after the year to which the emission disclosures are related. Foreign private issuers may provide the disclosures in an amendment to their annual report on Form 20-F due 225 days after the end of their fiscal year. For registration statements, the GHG emission disclosures would be required for the most recent fiscal year 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.

Except for the financial statement disclosures outlined above, domestic registrants are required to present other information, including GHG emissions, in a newly created section of Form 10-K (Item 6) immediately before the management discussion and analysis (MD&A) or in another appropriate section of the filing (e.g. risk factors, MD&A). Foreign private issuers are required to present it in Form 20-F (Item 3.E).

The final rule states that the definition of materiality used by a registrant should be consistent with that established by the US Supreme Court, i.e. "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 emphasises that materiality is based on facts and circumstances and takes into account qualitative and quantitative factors.

In addition, the final rule provides a safe harbour to protect registrants from liability for disclosures related to transition plans, scenario analysis, internal carbon pricing, and targets and goals, other than disclosures that relate to historical facts.

Attestation, internal control over financial reporting and disclosure controls and procedures

The financial statement disclosures will be subject to existing financial statement audit requirements and management's internal control over financial reporting. For large accelerated filers and accelerated filers that are not EGCs, the independent registered public accounting firm's audit of internal control over financial reporting will similarly assess controls over these disclosures.

All disclosures outside the financial statements will be subject to management's disclosure controls and procedures, which the registrant's principal executive officer and principal financial officer are required to periodically assess and certify. The Scope 1 and Scope 2 GHG emission disclosure will be subject to limited assurance² for large accelerated filers and accelerated filers (other than SRCs and EGCs) and, following a phase-in period, reasonable assurance for large accelerated filers.

1. Domestic registrants may also disclose this information by amending their Form 10-K by the due date of their second quarter Form 10-Q.
2. The objective of a limited assurance engagement is for the service provider to express a conclusion about whether it is aware of any material modifications that a registrant should make for the subject matter to be in accordance with the relevant criteria. By contrast, the objective of a reasonable assurance engagement, which provides the same level of assurance as an audit of a registrant's financial statements, is to express an opinion on whether the subject matter is, in all material respects, in accordance with the relevant criteria.

Affected entities and transition provisions

All domestic and foreign registrants, except for asset-backed issuers, are required to provide the disclosures. SRCs, EGCs and non-accelerated filers are exempt from the Scope 1 and Scope 2 GHG emission disclosure requirements but are required to provide all other disclosures. Disclosures may be provided prospectively upon adoption.

The final rule becomes effective 60 days after it is published in the Federal Register. 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	Scope 1 and Scope 2 GHG emission disclosures ³	Attestation on Scope 1 and Scope 2 GHG emission disclosures ⁴
	Annual reports or registration statements that include financial statements for the year ending 31 December:			
Large accelerated filer	2025	2026	2026	Limited assurance—2029 Reasonable assurance—2033
Accelerated filer (excluding SRCs and EGCs)	2026	2027	2028	Limited assurance—2031 Reasonable assurance—not required
Non-accelerated filer, SRCs and EGCs	2027	2028	Not required	Not required

Non-calendar-year-end registrants would provide these disclosures for the fiscal year beginning in the calendar years shown above. For example, a large accelerated filer with a 30 June year-end would be required to first provide all disclosures (except disclosures about material expenditures and impacts, and GHG emission disclosures) for its annual report for the year ending 30 June 2026, because that fiscal year began in calendar year 2025.

Further information

If you have any questions about the final rule, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. [iGAAP on DART](#) allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards
- illustrative financial statements for entities reporting under IFRS Accounting Standards.

In addition, our [sustainability reporting](#) volume of iGAAP provides guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

To apply for a subscription to iGAAP on DART, [click](#) here to start the application process and select the iGAAP package.

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3. Entities 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, 225 days after the end of the fiscal year.

4. See footnote 3.

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