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SEC Releases New Climate Change Disclosure Rule

Earlier today, the Securities and Exchange Commission (SEC) voted 3-1 to advance a proposed rule to mandate certain climate-related disclosures by public companies.

As drafted, the SEC's proposal would require all public companies to:

- disclose information about their internal processes to identify, assess, manage and oversee climate-related risks;
- disclose how any identified climate-related risks have had, or are likely to have, a material impact on their businesses and consolidated financial statements over various periods of time;
- disclose how any identified climate-related risks have affected, or are likely to affect, each company's strategy, business model, and outlook;
- disclose information about any transition plans, scenario analyses, or carbon price metrics that a company may have adopted to address climate-related issues; and
- disclose the impact of any climate-related events (i.e., severe weather events and other natural conditions) within its financial statements.

Companies would also be required to calculate and disclose their direct greenhouse gas (GHG) emissions (Scope 1) and indirect GHG emissions from purchased electricity and other forms of energy (Scope 2). These disclosures may rely on broadly accepted disclosure frameworks, such as the Task Force on Climate-Related Financial Disclosures and the Greenhouse Gas Protocol.

As an additional requirement, companies would be required to disclose indirect emissions from upstream and downstream activities in their value chain (Scope 3), if such emissions are material or if a company has established a target or a goal that includes such Scope 3 emissions.

If a company has publicly set climate-related targets or goals, the SEC's proposed rule would require the company to provide additional information about how it intends to meet these climate-related targets or goals, including updates each fiscal year.

Public companies would also be required to provide these climate-related disclosures in certain SEC filings, such as Form 10-K. As an additional step, accelerated or large accelerated filers would be required to obtain an attestation report from an independent attestation service provider covering, at a minimum, disclosures involving Scopes 1 and 2 emissions.

The SEC proposal provides various phase-in periods for accelerated and larger accelerated filers for compliance with these new requirements. A safe harbor from liability would be provided for Scope 3 emissions disclosures. Smaller reporting companies would be provided a longer compliance transition and would be exempt from the Scope 3 emissions disclosure requirement.

The SEC has opened a 60-day comment period for this rulemaking to receive public input. Comment letters may be submitted before the deadline of May 20, 2022. The Commission expects to issue its final rule sometime during calendar year 2022.

NIRI plans to submit a comment letter on this significant proposed rulemaking and will provide more information about how to contribute to that effort in the near future.

Resources

SEC Fact Sheet: https://www.sec.gov/files/33-11042-fact-sheet.pdf.

SEC Rule Proposal: https://www.sec.gov/rules/proposed/2022/33-11042.pdf.

About NIRI: The Association for Investor Relations

Founded in 1969, NIRI is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts and other financial community constituents. The largest professional investor relations association in the world, NIRI's more than 2,800 members represent over 1,350 publicly held companies with more than $7 trillion in stock market capitalization.