SEC’s proposal on climate-related disclosures for investors

Full proposal is available on SEC website here: https://www.sec.gov/rules/proposed/2022/33-11042.pdf

Why it was proposed
To help investors make better informed decisions and evaluate climate-related risks. The SEC is looking to improve consistency, comparability, and reliability of climate-related information.

What is the proposal
An enhanced climate data disclosure regime in registration statements and annual reports, closely aligned with the Task Force on Climate-Related Financial Disclosure standards. The disclosures are fairly prescriptive, but the SEC is open to a principles-based methodology with transparency. The proposal covers Greenhouse Gas Emissions, Carbon Offsets/REC Usage and Carbon Pricing.

Who is impacted
SEC Registrants, including Foreign, Private Issuers (i.e. Form 20-F filers) with different requirements depending on size.

When is it effective*

<table>
<thead>
<tr>
<th>Scope 1 &amp; 2 GHG disclosure</th>
<th>Limited assurance</th>
<th>Reasonable assurance</th>
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<tr>
<td>Accelerated filer</td>
<td>FY 2024 (filed in 2025)</td>
<td>FY 2025 (filed in 2026)</td>
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<td>Large accelerated filer</td>
<td>FY 2023 (filed in 2024)</td>
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Key highlights of the proposal

- **Defining GHG emissions**
  - All 7 Kyoto Protocol gases¹ disclosed at a disaggregated and aggregate-level
  - All GHG disclosures are normalized into carbon dioxide equivalents (CO₂e).
  - Scope 1 and 2 disclosures are subject to attestation reports, after a transition period.
  - Both absolute and intensity disclosures required. Intensity to be disclosed as sum of Scope 1 and 2 - and separate for Scope 3 if required. To be reported as metric tons of CO₂e per unit of total revenue² and per unit of production for the fiscal year.

- **Who is required to make scope 1-2 vs 3 disclosures?**
  - Scope 1 and Scope 2 disclosures for every registrant
  - Scope 3 exempted for smaller filers, otherwise only if: (a) material, or (b) a company includes Scope 3 in its published GHG reduction targets.
  - If disclosing Scope 3, should identify categories of upstream/downstream activities included. (p.179)

- **Calculation and methodology**
  - Flexibility in choice of GHG emissions calculation methodology. But must disclose: organizational boundaries, operational boundaries, calculation approach and calculation tools used. The SEC highlights the market-based method and the location-based method as the two most common Scope 2 approaches but does not prescribe either. (p.204)

- **Carbon offsets/REC usage and carbon pricing**
  - Must disclose if carbon offsets or RECs are used as part of net emissions reduction strategy.
  - If an internal carbon price is used, firms must disclose: (a) the per unit price, normalized to reporting currency in CO₂e equivalents (metric ton of carbon dioxide); (b) total price and estimates of how it might change over time; (c) organizational boundaries used if different to financial statement disclosures; and (d) rationale for using that internal price for carbon.
  - Requirement to disclose all scope data in gross terms, excluding any use of purchased or generated offsets.

¹That is: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), nitrogen trifluoride (NF₃), hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulfur hexafluoride (SF₆).
²If a registrant has no revenue, they can disclose in terms of another financial metric such as total assets.
³Based on adoption of the release by December 2022
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