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*

	Scope 1 & 2 GHG disclosure	Limited assurance	Reasonable assurance
Accelerated filer	FY 2024 (filed in 2025)	FY 2025 (filed in 2026)	FY 2027 (filed in 2028)
Large accelerated filer	FY 2023 (filed in 2024)	FY 2024 (filed in 2025)	FY 2026 (filed in 2027)

Key highlights of the proposal

- **Defining GHG emissions**
  - All 7 Kyoto Protocol gases[1] disclosed at a disaggregated and aggregate-level
  - All GHG disclosures are normalized into carbon dioxide equivalents (CO_{2e}).
  - 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 CO_{2e} per unit of total revenue[2] 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.

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

Limitations