Deloitte.

Heads Up | Volume 31, Issue 4
March 6, 2024

In This Issue

- Overview
- Key Changes From the Proposed Rule
- Key Components of the Climate Disclosure Requirements
- Location, Timing, Materiality, and Safe Harbor
- Attestation, ICFR, and DCPs
- Affected Companies and Transition Provisions
- Comparison With Other Climate Disclosure Regulations
- Implementation Considerations — The Time to Prepare Is Now
- Other Resources
- Contacts

Executive Summary of the SEC's Landmark Climate Disclosure Rule

Overview

On March 6, 2024, the SEC issued a final rule[1] that requires registrants to provide climate-related disclosures in their annual reports and registration statements, including those for IPOs, beginning with annual reports for the year ending December 31, 2025, for calendar-year-end large accelerated filers. The final rule scales back the proposed rule[2] in several key ways. For example, companies will not have to provide Scope 3 GHG emission disclosures, their financial statement disclosure requirements will be less extensive, and they will have more time to implement the disclosures and related assurance requirements.

Disclosures required outside of the financial statements include:

- 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 the footnotes to the financial statements, registrants must disclose financial statement impacts and material impacts on their financial estimates and assumptions due to severe weather events and other natural conditions. Companies will also need to disclose a rollforward of carbon offsets and renewable energy credits or certificates (RECs) in the notes to the financial statements if carbon offsets and RECs are a material component of meeting their climate-related targets and goals.

[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.*

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."

Stay tuned for our comprehensive *Heads Up* on the final rule, which we expect to publish shortly.

Key Changes From the Proposed Rule

The SEC received record levels of feedback on the proposed rule, and in such feedback, registrants raised significant concerns. The final rule addresses certain aspects of that feedback by:

- Establishing a materiality threshold for Scope 1 and Scope 2 GHG emissions and allowing registrants to delay disclosure of such information, and any related attestation, by permitting them to file it by the due date of their second fiscal quarterly report for the following year.
- Giving registrants flexibility in determining the organizational boundary for their Scope 1 and Scope 2 GHG emissions, with appropriate disclosure of how the boundary differs from the scope of the consolidated financial statements.
- Eliminating the Scope 3 GHG emission disclosure requirement.
- Removing the requirement to evaluate financial statement impacts on a line-item-by-line-item basis and instead requiring disclosure of amounts reflected directly in the financial statements when such aggregate amounts exceed 1 percent of pretax income or total shareholders' equity, subject to a de minimis threshold.
- Lengthening the adoption 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, and (3) six years to obtain limited assurance over GHG emissions.
- Exempting smaller reporting companies (SRCs), emerging growth companies (EGCs), and nonaccelerated filers from the requirement to provide GHG emission disclosures and related attestation.

Key Components of the Climate Disclosure Requirements

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

Severe weather and other natural condition financial statement impacts	• The aggregate expenditures incurred and losses recognized 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 percent of the absolute value of pretax income (loss) or $100,000. • The aggregate capitalized costs and charges recognized on the balance sheet because 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 in the bullets above before consideration of any recoveries such as insurance, which would be disclosed separately, and also must disclose the amounts recognized in each financial statement line item affected. • Registrants are not required to attribute the cause of severe weather events or other natural conditions to climate change; instead, they must include the entire amount of the expenditures, losses, capitalized 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 recognizing such amounts.

Carbon offset and renewable energy credit (REC) information	If carbon offsets and RECs are material to the registrant's plan to achieve disclosed climate-related targets or goals (e.g., net-zero commitment), registrants must disclose a rollforward of the beginning and ending balances, with separate disclosure of the aggregate amount expensed, the aggregate amount capitalized, and the aggregate amount of losses incurred related to such instruments during the year. Registrants must 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 registrants 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 must be provided separately for Scope 1 and 2 on a gross basis (before consideration of any offsets). Registrants must disclose whether and, if so, how the organizational boundary materially differs from the entities and operations reflected in the consolidated financial statements.

Governance

How the registrant's board of directors (or subcommittee) 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 registrant's strategy, business model, and outlook.
- If a registrant 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 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, a description of the scenarios, assumptions, and projected financial impacts.
- If a registrant has adopted a climate transition plan, a description of such plan and the registrant's progress over time.

Risk management

The registrant's processes for detecting, evaluating, and managing climate-related risks and whether those processes are integrated into the registrant's broader enterprise risk management program.

(Table continued)

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 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. ◦ 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 (1) mitigation of or adaption 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.

Location, Timing, Materiality, and Safe Harbor

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 in their second-quarter Form 10-Q[3] 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 in the table 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 it in Form 20-F (Item 3.E).

The SEC states in the final rule 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.

In addition, 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 that relate to historical facts.

Attestation, ICFR, and DCPs

The financial statement disclosures will be subject to existing financial statement audit requirements and management's internal control over financial reporting (ICFR). For large

[3] Domestic registrants may also disclose this information by amending their Form 10-K by the due date of their second quarter Form 10-Q.

accelerated filers and accelerated filers that are not EGCs, the independent registered public accounting firm's audit of ICFR will similarly assess controls over these disclosures.

All disclosures outside the financial statements will be subject to management's disclosure controls and procedures (DCPs), which the registrant's principal executive officer and principal financial officer must periodically assess and certify. The Scope 1 and Scope 2 GHG emission disclosure will be subject to limited assurance[4] for large accelerated filers and accelerated filers (other than SRCs and EGCs) and, following a phase-in period, reasonable assurance for large accelerated filers.

Affected Companies and Transition Provisions

All domestic and foreign registrants, except for asset-backed issuers, must provide the disclosures. SRCs, EGCs, and nonaccelerated filers are exempt from the Scope 1 and Scope 2 GHG emission disclosure requirements but must 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[5]	Scope 1 and Scope 2 GHG Emission Disclosures[6]	Attestation on Scope 1 and Scope 2 GHG Emission Disclosures[7]
	Annual Reports or Registration Statements That Include Financial Statements for the Year Ending December 31:			
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
Nonaccelerated 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 June 30 year-end would be required to first provide all disclosures except disclosures about

[4] 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.

[5] See the Material Expenditures and Impacts discussion.

[6] As discussed in the Location, Timing, Materiality, and Safe Harbor section, companies 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.

[7] See footnote 6.

material expenditures and impacts and GHG emission disclosures for its annual report for the year ending June 30, 2026, because that fiscal year began in calendar 2025.

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, and the California climate legislation. Like this other guidance, 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).[8] However, while the IFRS Sustainability Disclosure Standards and the CSRD broadly address sustainability and ESG matters, the SEC's final rule only addresses climate-related disclosures. The SEC did not recognize other standards (e.g., the IFRS Sustainability Disclosure Standards) as an alternative to the disclosures required by the final rule, but Commissioner Caroline Crenshaw recommended that the SEC explore this in the future.

Implementation Considerations — The Time to Prepare Is Now

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. Although there has been much speculation about potential legal challenges to the final rule, most companies cannot afford to defer implementation activities until after the settlement of legal actions.

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 climate governance* — Educate the board of directors, management, and employees about the final rule and build organizational capacity. Establish or refine board and management oversight, and define clear roles, responsibilities, and charters.
- *Understand the current state of climate disclosure and information* — Inventory climate-related information that has already been gathered or disclosed and understand the 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 attestation (if applicable)* — Understand attestation 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.

[8] 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.

Other Resources

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

- ESG Financial Reporting Resources
- *Roadmap — Greenhouse Gas Protocol Reporting Considerations*
- *Heads Up — #DeloitteESGNow — The Sweeping Impacts of California's Climate Legislation*
- *Heads Up — #DeloitteESGNow — FASB Makes Additional Tentative Decisions Related to the Accounting for Environmental Credit Programs*
- *Heads Up — #DeloitteESGNow — Frequently Asked Questions About the E.U. Corporate Sustainability Reporting Directive*
- *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

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