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SEC climate disclosure: Considerations for insurers

SEC rule for public company climate disclosure has now been issued

On March 6, 2024, the SEC issued a final rule that requires climate-related disclosures in annual reports and registration statements[1]. While in line with existing frameworks and guidance, it may take significant coordination to understand the connections and implications of this rule and to create a strong compliance strategy. Although the rule is currently facing legal challenges and a partial stay has been imposed by the SEC to minimize regulatory uncertainty, there are specific nuances and implications for insurers that executives should consider. Below are insights based on the final rule as released.

5 insights you should know		*5 considerations to evaluate now*
Defining severe weather and other natural conditions: Registrants must disclose certain financial statement effects of severe weather events and other natural conditions, including "hurricanes, tornadoes, flooding, drought, wildfires, extreme temperatures, and sea level rise." All severe weather events or other natural conditions are subject to this disclosure requirement, regardless of whether they were caused or partially caused by climate change.	1	**Different definition but similar process to catastrophes:** The final rule intentionally does not define severe weather events or other natural conditions; instead, it provides a non-exhaustive list of examples. Insurers are in the business of managing such risks and will now need to develop an accounting policy for determining what qualifies as a severe weather event or other natural condition, similar to what exists today for catastrophe loss reporting. Judgment will need to be exercised in applying that policy to specific facts and circumstances. Once defined, broad data collection and tracking mechanisms will be required to measure and report such defined events.
Nuanced materiality judgments: The final rule does not prescribe specific materiality thresholds in all cases, and registrants are required to apply traditional notions of materiality. Disclosure of Scope 1 and 2 emissions, as well as the impacts of climate-related risks, is only required where and when material. Material expenditures that are a direct result of 1) mitigation of or adaption to climate-related risks, 2) disclosed transition plans, or 3) actions taken to achieve or progress toward those targets or goals are also required disclosures.	2	**Materiality considerations for Scope 1 and 2 emissions:** While Scope 1 and 2 emissions may not be quantitatively material for insurers, consideration should be given to qualitative factors when determining overall materiality. Insurers should consider: GHG emissions disclosures required by other regulatory regimes, such as OSFI[4], CSRD[5], and California's SB 253[6]; the interaction with CSRD double materiality conclusions, where investment and underwriting portfolios will likely be identified as qualitatively material to the environment; disclosures made in public documents such as climate and sustainability reports; and public climate-related targets or commitments. Internal processes and methodologies will be needed to make these nuanced judgments.
Overlapping climate-related disclosure requirements: The final rule aligns with existing guidance from the NAIC,[2] OSFI, California's SB 253, SB 261[3] and CSRD. All emphasize integrating climate-related risks into overall risk management. However, these regulations diverge in their approach by considering the size and status of an insurer when requiring climate-related disclosures.	3	**Build data collection and reporting agility:** Across the regulatory regimes, insurers have varying levels of requirements for climate disclosure and should prioritize collecting high-quality data on climate-related risks to enable efficient reporting in response to these varying requirements. Insurers may consider enhancing data quality, timeliness, automation, and relevance by standardizing governance and controls to prepare for assurance-ready disclosures, according to each regulation.
Scenario analysis: Insurers may conduct scenario analysis for internal planning or to meet regulator expectations. The rule mandates appropriate disclosure if scenario analysis is used to assess potential material impacts of climate-related risks on business operations or financial condition. If conducted, they will need to consider disclosing results in an informative manner for investors and regulators.	4	**Optimize the use of scenario analysis for voluntary disclosure and innovate products:** Scenario analyses designed for internal risk management might use different assumptions or be more granular than those suitable for public disclosure. Disclosing scenario analysis can provide valuable insights to investors but may also reveal sensitive information to competitors. Insurers should assess which scenarios, results, and methodologies align with SEC disclosure requirements. In addition, insurers may find that leveraging these insights may also pave the way for product innovation.
Scope 3 emissions not required, but pressure looms: Even though Scope 3 emissions reporting is not directly required by the final rule, many insurers have committed to Scope 3 targets and may still need to disclose aspects of Scope 3 emissions in certain instances. This is especially true when reporting progress against climate targets or contextualizing the effects of climate-related risks in financial statements.	5	**Approach to voluntary Scope 3 emissions disclosures:** If an insurer has existing climate-related targets or goals, including those that may have been made as part of membership in the NZIA, it is likely that progress against Scope 3 emissions targets would be material. Where Scope 3 emissions disclosure is required by other regulatory regimes, aligning with those requirements can help to streamline emissions-related initiatives.

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Definitions:

Securities and Exchange Commission (SEC), National Association of Insurance Commissioners (NAIC), Office of the Superintendent of Financial Institutions (OSFI), Climate Corporate Data Accountability Act (California SB 253), Climate-Related Financial Risk Act (California SB 261), Corporate Sustainability Reporting Directive (CSRD), Greenhouse Gas (GHG), Net-Zero Insurance Alliance (NZIA).

Endnotes

1. Securities and Exchange Commission (SEC), Final Release No. 33-11275, "The Enhancement and Standardization of Climate-Related Disclosures for Investors," March 6, 2024.
2. National Association of Insurance Commissioners (NAIC), "U.S. insurance commissioners endorse internationally recognized climate risk disclosure standard for insurance companies," press release, April 8, 2022.
3. State of California, "SB-261 Greenhouse gases: Climate-related financial risk," October 7, 2023.
4. Office of the Superintendent of Financial Institutions (OSFI), "Climate Risk Management," March 31, 2023.
5. European Commission, "Corporate sustainability reporting," accessed April 12, 2024.
6. State of California, "SB-253 Climate Corporate Data Accountability Act," October 9, 2023; Deloitte, "The Climate Corporate Data Accountability Act (SB-253)," November 14, 2023.

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