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SEC Proposal: Enhancement and Standardization of Climate-Related Disclosures

Call to Action: What this means for your organization

Today…

- **Oversight of ESG is often not clearly established or defined,** though governance and organizational capacity are critical to managing climate-related efforts.[1]
- **Timeliness for data collection and reporting** typically extend beyond current 10-K filing deadlines.[2]
- **Data processes and controls** over climate-related information are generally not as mature as financial reporting processes and controls.[1]
- **Climate-related disclosure is voluntary.** Companies use a variety of sustainability reporting frameworks and standards, and disclosure outlets.[2]
- **Assurance**—an avenue to quality, accurate, and reliable disclosure—is currently not required.[1]

Under the proposed rule, registrants would be required to disclose[3]…

1. **Governance of climate-related risks,** how identified climate-related risks have or are likely to have a material impact on a company's strategy, business model, outlook over short-, medium-, or long-term, and risk management processes.
2. **Climate-related financial statement metrics** (e.g., disaggregated climate impacts on financial statement line items) **and impact of climate-related physical events and transition activities** on estimates and assumptions.
3. **Greenhouse gas (GHG) emissions,** including Scopes 1 and 2 (and Scope 3 phased in if material or if registrant has Scope 3 target).
4. **Reasonable assurance,** phased in for accelerated and large accelerated filers over certain GHG emission disclosures; limited assurance precedes.
5. **Information about climate-related targets** and transition plans.

Let's talk climate.

Kristen Sullivan
Partner, Global Climate Leader
Sustainability & ESG Services*
Deloitte & Touche LLP
+1 203 708 4593
ksullivan@deloitte.com

Christine Robinson
Partner
Sustainability & ESG Services*
Deloitte & Touche LLP
+1 801 366 6839
chrobinson@deloitte.com

Jenny Lynch
Partner
Sustainability & ESG Services*
Deloitte & Touche LLP
+1 312 218 8023
jelynch@deloitte.com

The time to act is now…

Sustainability & ESG Services is part of the Audit & Assurance business.

1. Deloitte, *2022 CxO Sustainability Report*, 2022.
2. CAQ, *ESG Reporting and Attestation: A Roadmap for Audit Practitioners*, February 17, 2021.
3. SEC, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, March 21, 2022.

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What now? How to prepare in 7 steps

7 CLIMATE CONSIDERATIONS

1 Establish or refine climate governance

- Identify board and management oversight on climate-related matters, and define clear roles, responsibilities, and charters.
- Establish cadence for climate-focused discussions, and implement recurring educational sessions.
- Consider ESG or climate performance linked to compensation, as applicable.

2 Include the right people

- Perform internal and external stakeholder engagement, including education on climate-related risks, data collection, and target setting.
- Establish or refine a cross-functional sustainability council with clear roles, responsibilities, objectives, accountability, and monitoring.

3 Build reporting agility

- Enhance data quality, timeliness, automation, and relevance by standardizing governance and controls to prepare for assurance-ready disclosure.
- Quickly upskill relevant stakeholders on proposed SEC requirements and reporting timelines, aligning financial filings and existing climate-related disclosure.
- Enhance preparedness by aligning with the recognized frameworks and standards (e.g., TCFD, GHG Protocol).

4 Establish controls over climate-related data

- Assess the strength of processes and controls over climate-related data, leveraging existing financial reporting control structure.
- Clearly document process flows and control matrices, identify areas for improvement, and prepare for regulatory disclosure timelines.
- Establish near- and long-term plans for climate-related disclosures (e.g., Scopes 1 and 2 GHG emissions, and phased-in Scope 3 GHG emissions).

5 Think strategically

- Understand disclosure requirements for climate-related metrics and targets, preparing for greater transparency on progress and transition plans.
- Integrate climate risk and opportunity analyses into business strategy, supporting physical and transition risk mitigation and preparedness.

6 Identify climate risks and opportunities

- Identify climate-related physical and transition risks and opportunities (e.g., legal and policy, market, product, physical hazards) to the business.
- Evaluate how identified risks and opportunities have or may have an impact on the financial statements over the short, medium, or long term.
- If scenario analysis has been performed, prepare to disclose scenarios, parameters, assumptions, and financial impacts.

7 Be transparent

- Prepare for accelerated reporting timelines, similar to financial reporting.
- Develop a plan to obtain and/or increase the level of assurance.
- Disclose relevant metrics and evidence of progress to achieve targets.
- Contemplate financial accounting and reporting implications.
- Engage internal audit.

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A deeper look: Governance and controls over climate-related data

Climate-related governance

- Establish **board oversight and top-down accountability** mechanisms to support robust control environment
- Clearly define **data owners' roles, responsibilities, and competencies**
- **Build organization capacity and train** board and management
- Incorporate climate-related disclosure considerations into **data management policies and procedures**

Internal controls over climate-related data

1. Define disclosure objectives

- Establish, document, and communicate internal and external climate-related data timelines, aligned with financial reporting
- Review current-state processes and controls around existing climate-related disclosure
- Understand existing quantitative and qualitative data governance structures to identify gaps and meet near- and long-term reporting requirements

2. Assess disclosure risks

- Identify potential risks that could impact climate-related reporting objectives
- Determine relevant data sources, systems, and process owners
- Document end-to-end climate processes through narratives and flowcharts
- Identify and document data and IT system limitations, assumptions, and estimates

3. Identify controls

- Evaluate maturity of existing controls to enhance data accuracy and completeness
- Define internal process controls and general IT controls (GITCs) to mitigate identified climate-related risks
- Document methodologies for data collection, measurement, and/or estimation (i.e., disparate data sources, varying units, conversion factors, etc.)

4. Evaluate effectiveness

- Regularly assess design, implementation, and operating effectiveness of controls
- Remediate control gaps and deficiencies timely, and implement ongoing process improvements
- Integrate controls over climate-related disclosure into enterprise risk management processes and internal audit plans
- Engage with external assurance provider

The SEC proposed rule calls for disclosure of GHG emissions, Scopes 1 and 2 (and Scope 3 phased in if material or if registrant has Scope 3 target), as well as certain financial statement disclosures, and qualitative and governance disclosures. The Scope 1 and Scope 2 GHG emission disclosures would be subject to limited assurance during a phase-in period, followed by reasonable assurance.