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  
sullivan@deloitte.com

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

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

\(^1\) 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
SEC Proposal: Enhancement and Standardization of Climate-Related Disclosures

What now? How to prepare in 7 steps

1. 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).

2. 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.

3. 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.

4. 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).

5. 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.

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.
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.