SEC Climate-Related Disclosures Proposal: Transparency or Regulatory Burden?

Part 3 of 3

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This is the final installment of a three-part series dealing with the SEC's proposed climate-related rules and disclosures. Part 1 can be found here and Part 2 here.

This issue deals with some of the peripheral topics and timing issues of the SEC's proposal entitled The Enhancement and Standardization of Climate-Related Disclosures for Investors.

The long-awaited International Sustainability Standards Board (ISSB) climate-related disclosure proposal arrived on March 31st, with the comment period open until July 29th. The proposal indicates that the ISSB intends to "redeliberate" or reconsider the proposed disclosure requirements in the second half of 2022 based on feedback from stakeholders with the resulting International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards to follow shortly thereafter.

This article will contrast the focus of the two disclosure frameworks and highlight the attestation expectation and timelines for compliance outlined by the SEC Climate-Related Disclosure proposal document.

Notable Differences – Proposed ISSB and SEC Climate-Related Disclosures

The ISSB proposal builds upon the industry-related framework originated with the Sustainability Accounting Standards Board (SASB) standards. Therefore, the ISSB proposed disclosures include an appendix with industry-specific metrics (Appendix B) that "address significant sustainability-related risks and opportunities related to climate change." The industry-related disclosures are derived from the SASB standards.

Another notable difference relates to the required disclosures of greenhouse gas (GHG) emissions. Under the ISSB standard, only material Scope 1, Scope 2 and Scope 3 emissions are required to be disclosed. However, the SEC proposed climate-related disclosures include the affirmative numerical disclosure of Scope 1 and Scope 2 emissions, regardless of their materiality, by all registrants. Smaller reporting companies have the longest timeline for this disclosure under the proposed rules.

The concept of financed and facilitated emissions is another notable point of difference between the two disclosure regimes. The ISSB Exposure Draft goes definitively beyond the current SASB standards as they relate to financial firms and proposes the establishment of disclosures specific to four types of financial firms: commercial banks, investment banks, asset management and insurance.

Financial firms in these four key categories would be required to provide disclosures based on their underwriting, lending and/or investment activities that finance or facilitate emissions. While most large financial institutions have been preparing for disclosures such as those proposed, one might question how the investment community would use the information for investment purposes, particularly given the fact that the initial set of emissions disclosures may not be robust since management will not be subject to attest on the internal controls around the emissions data.

Attestation of Scope 1 and Scope 2 Emissions Disclosures

The proposed rules would require an accelerated filer or a large accelerated filer to include in the relevant filing an attestation report covering, at a minimum, the disclosure of its Scope 1 and Scope 2 emissions and to provide certain related disclosures about the emissions attestation service provider.

Under the proposed guidelines, registrants would be permitted to select an emissions attestation service provider that is not a public accounting firm, provided that the service provider meets a set of required characteristics.

The proposed timeline for the reporting of GHG emissions would permit registrants to seek limited assurance over their Scope 1 and Scope 2 GHG emissions for years 2 and 3 after the emissions disclosure compliance date. Reasonable assurance of GHG emissions would be required from fiscal years 4 and beyond after the emissions disclosure compliance date. The compliance dates proposed by the SEC takes the size of the registrant into account, under the assumption that larger companies have more of the required internal procedures and systems to report their GHG disclosures.

Proposed Timelines

Assuming the proposed rules were made effective by December 2022, the proposed timelines for disclosure and GHG emissions attestation would be as follows:

Filer Type	Scopes 1 and 2 GHG Disclosure Compliance Date	Limited Assurance	Reasonable Assurance
Accelerated Filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	Fiscal year 2027 (filed in 2028)
Large Accelerated Filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	Fiscal year 2026 (filed in 2027)

Information on proposed timelines as well as other related material can be found in the Fact Sheet related to the SEC proposals.

Compliance Dates for Climate-Related Disclosures

<table>
<tr><th>Registrant Type</th><th colspan="2">Disclosure Compliance Date</th><th>Financial Statement Metrics Audit Compliance Date</th></tr>
<tr><td></td><td>All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2 and associated intensity metric, but excluding Scope 3.</td><td>GHG emissions metrics: Scope 3 and associated intensity metric.</td><td></td></tr>
<tr><td>Large Accelerated Filer</td><td>Fiscal year 2023 (filed in 2024)</td><td>Fiscal year 2024 (filed in 2025)</td><td rowspan="3">Same as disclosure compliance date</td></tr>
<tr><td>Accelerated Filer and Non Accelerated Filer</td><td>Fiscal year 2025 (filed in 2025)</td><td>Fiscal year 2025 (filed in 2026)</td></tr>
<tr><td>SRC</td><td>Fiscal year 2025 (filed in 2026)</td><td>Exempted</td></tr>
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We continue to monitor the potential implications of the quickly evolving climate risk and carbon measurement disclosures required by global regulatory entities, including the SEC.

If you have any questions about this article, please contact your client engagement partner or:

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