Summary of *The Enhancement and Standardization of Climate-Related Disclosures for Investors*

SEC Release Nos. 33-11275 and 34-99678

On March 6, 2024, the Securities and Exchange Commission adopted *The Enhancement and Standardization of Climate-Related Disclosures for Investors*. The final rule requires a registrant to disclose certain climate-related information in its registration statements and annual report. The rule aims to provide investors with consistent, comparable, and reliable information about the financial effects of climate-related risks on a registrant's business and how the registrant manages those risks.

Entities affected: Public companies with Exchange Act reporting obligations pursuant to Exchange Act Section 13(a) or Section 15(d), and companies filing a Securities Act or Exchange Act registration statement, including foreign private issuers.

Timing: The final rule was published in the *Federal Register* on March 6, 2024, and becomes effective 60 days thereafter.

Changes from the proposed rule

- **Regulation S-K requirements** are less prescriptive and provide for certain disclosures based on materiality.
  - Moved disclosure of material expenditures directly related to climate-related activities as part of strategy, transition plan, or targets and goals from S-X requirement in the notes to the financial statements to S-K requirement in the nonfinancial statement disclosures in the filing.
  - Greenhouse gas (GHG) emissions
    - Small reporting companies (SRCs), emerging growth companies (EGCs), and non-accelerated filers are exempted from the disclosure and attestation requirements.
    - Scope 3 GHG emissions disclosure requirements eliminated for all registrants.
    - Large accelerated filers (LAFs) and accelerated filers (AFs) are required to disclose only Scope 1 and Scope 2 GHG emissions when the emissions are material.
    - Flexibility in determining the organizational boundary for Scope 1 and Scope 2 GHG emissions, with appropriate disclosure of how the boundary differs from the scope of entities and operations included in the consolidated financial statements.
    - Allows more time to submit than initially proposed; disclosures can be filed in the second quarterly report (following the annual report).
- **Regulation S-X requirements** are narrower in scope.
  - Removed the requirement to evaluate financial statement impacts on a line-item-by-line-item basis for positive and negative impacts of severe weather events, other natural conditions, and transition activities.
- **Adoption timeline** lengthened.

Content of the disclosures

Nonfinancial statement (Regulation S-K) disclosures

- **Climate-related risks** that have had a material impact or are reasonably likely to have a material impact on strategy, results of operations, or financial condition in the short term (i.e., the next 12 months) and the long term (i.e., beyond the next 12 months)
  - Activities (if any) to mitigate or adapt to those risks, including a description of transition plans (if adopted) and progress made, scenario analysis (if used), and information about internal carbon prices (if used)
  - Whether the impacts of those risks have been integrated into the strategy or business model, including material expenditures incurred and material impacts on financial estimates and assumptions
- **Board of directors' oversight of material climate-related risks** and management's role in managing material climate-related risks
- **Material climate-related targets or goals** (if any) related to the registrant's business, results of operations, or financial condition
- **Material Scope 1 and Scope 2 GHG emissions** by LAFs and AFs
  - Disclosure of constituent gases, if material
  - Disclosure of the methodology, significant inputs, and significant assumptions used to calculate the GHG emissions (including the organizational and operational boundaries used and the standard or protocol used to report the information)

Financial statement (Regulation S-X) disclosures

- **Aggregate amounts of effects of severe weather events and other natural conditions,** including:
  - Aggregate incurred expenses and losses (above $100,000) if the aggregate amount equals or exceeds 1% of the absolute value of pre-tax income or loss
  - Aggregate capitalized costs and charges (above $500,000) if the aggregate amount equals or exceeds 1% of the absolute value of stockholders' equity or deficit
  - Aggregate recoveries recognized if incurred expenses, losses, or capitalized costs and charges are disclosed
- **Aggregate expenses, capitalized costs, and losses related to carbon offsets or renewable energy credits (RECs)** if used as a material component of the registrant's plans to achieve climate-related targets or goals
- **Financial estimates and assumptions materially affected by** severe weather events and other natural conditions or disclosed targets or transition plans

Presentation and attestation of the disclosures

- Registrants will include the financial statement (Regulation S-X) climate-related disclosures in a note to the audited financial statements. These disclosures fall within the scope of internal control over financial reporting (ICFR).
- Registrants will include the nonfinancial statement (Regulation S-K) climate-related disclosures, which will be subject to disclosure controls and procedures, in
  - a separate section of a registrant's registration statement or annual report,
  - another appropriate section of the filing (such as Risk Factors, Description of Business, MD&A), or
  - by incorporating such disclosure by reference from another Commission filing.
- Registrants will electronically tag the disclosures in Inline XBRL.
- LAFs and AFs will file an attestation report covering the required disclosure of material Scope 1 and/or Scope 2 GHG emissions.

Phase-in periods and accommodations

- Phased-in compliance period for all registrants.
- Compliance date is dependent upon the status of the registrant and the content of the disclosure.
- Safe harbor from private liability for climate-related disclosures related to transition plans, scenario analysis, internal carbon pricing, and targets and goals.
- Accommodation for delayed filing of Scope 1 and/or Scope 2 GHG emissions disclosure.
- LAFs and AFs to obtain limited assurance on GHG emissions disclosure beginning three years after the GHG emissions compliance date and reasonable assurance for LAFs beginning seven years after the compliance date.

Compliance dates under the final rule

Registrant type	Disclosure and financial statement effects		GHG emissions/assurance			Electronic tagging
	All Reg. S-K and S-X disclosures, other than as noted in this table	Reg. S-K disclosures about material expenditures and impacts on financial estimates and assumptions	Scopes 1 and 2 GHG emissions disclosure	Limited assurance	Reasonable assurance	Inline XBRL tagging
Large accelerated filers	FYB* 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033	FYB 2026
Accelerated filers (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A	FYB 2026
SRCs, EGCs, and non-accelerated filers	FYB 2027	FYB 2028	N/A	N/A	N/A	FYB 2027

* "FYB" refers to any fiscal year beginning in the calendar year listed.

Additional resources:

- AICPA® & CIMA® Sustainability and Business Thought Leadership Series
- AICPA & CIMA and IFAC State of Play in Sustainability Disclosure and Assurance
- Considerations of ESG-Related Matters in an Audit of Financial Statements
- ESG Reporting and Attestation: A Roadmap for Audit Practitioners
- The Role of the Auditor in Climate-Related Information

Other sustainability-related resources can be accessed at: AICPA & CIMA Climate & Sustainability/ESG and CAQ Resource Hub

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