

# SEC adopts climate-related disclosure rules

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[The rules will] “provide investors with consistent, comparable, and decision-useful information, and issuers with clear reporting requirements.”

- SEC Chair Gary Gensler

## At a glance

On March 6, 2024, the SEC adopted final rules designed to enhance public company disclosures related to the risks and impacts of climate-related matters. The new rules include disclosures relating to climate-related risks and risk management as well as the board and management’s governance of such risks. In addition, the rules include requirements to disclose the financial effects of severe weather events and other natural conditions in the audited financial statements. Larger registrants will also be required to disclose information about greenhouse gas emissions, which will be subject to a phased-in assurance requirement.

The final rules differ in several respects from the initial proposal, most significantly in changes to the financial statement footnote disclosures as well as reductions to the scope of and number of registrants subject to the greenhouse gas emission disclosures.

On April 4, 2024, the SEC [stayed](#) its climate disclosure rules to “facilitate the orderly judicial resolution” of pending legal challenges.

## What happened?

On March 6, 2024, the SEC adopted [new rules](#) that will require disclosures about climate-related risks that are reasonably likely to have a material impact on a company’s business strategy, results of operations, or financial condition. The decision to adopt the rules, however, was not unanimous, with two of the five current commissioners dissenting.

## Disclosure highlights

The rules will require disclosures in registration statements and periodic reports, such as Form 10-K for domestic issuers and Form 20-F for foreign private issuers. Disclosures will be required prospectively, with information for prior periods required only to the extent it was previously disclosed in an SEC filing, which may help ease the transition. The final rules leverage some concepts from the disclosure framework developed by the Task Force on Climate-related Financial Disclosures (TCFD), which is also the basis of other new mandatory reporting requirements in the US and globally. The SEC’s final rules, however, differ in many ways from other new regulations and standards, such as the European Union’s [Corporate Sustainability Reporting Directive](#), the [IFRS Sustainability Disclosure Standards](#), and the [California climate disclosure laws](#). In addition, although there is broad interest in interoperability — that is, the ability to use disclosures prepared under another framework to satisfy disclosure requirements — there are no equivalency provisions in the new rules. Instead, the SEC noted that it will “observe how reporting under international climate-related reporting requirements and practices develop before making any determination whether such an approach would result in consistent, reliable, and comparable information for investors.”<sup>1</sup>

<sup>1</sup> [SEC](#), *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, page 805.

## General disclosures

The new rules require domestic registrants and foreign private issuers to disclose:

- Actual and potential material impacts of climate-related physical and transition risks on the registrant's strategy, business model, and outlook that have materially impacted, or are reasonably likely to have a material impact on, the registrant, including its strategy, financial condition, and results of operations
  - *Key changes from proposal:* Granular physical risk location (i.e., zip code) disclosure has been replaced with a less prescriptive requirement to disclose the geography of assets and operations subject to physical risks. Risks are also categorized as either short term (i.e., within 12 months) or long term (i.e., greater than 12 months), eliminating the judgment in defining a medium-term category. In addition, registrants are not required to disclose climate-related risk involving their value chain unless such risk is material to the registrant's business, results of operations, or financial condition.
- A description of the nature and extent of management's role in assessing and managing climate-related risks and the board of directors' oversight of such risks
  - *Key changes from proposal:* The final rules retain the requirement to disclose the relevant expertise of management responsible for managing these risks but remove the requirement to disclose if any director has expertise on climate-related risks.
- The processes for identifying, assessing, and managing climate-related risks, whether and how climate-related risks are integrated into the company's overall risk management processes, and any transition plans to manage material transition risks that are part of the company's risk management strategy
  - *Key changes from proposal:* While the overarching disclosure principle is consistent with the proposal, the final rules eliminate certain specific disclosure requirements regarding processes for identifying and assessing climate-related risks (e.g., how management determines relative significance, how it assesses materiality, and how it considers customer, regulatory, and technological factors). The final rules also replace detailed disclosure requirements for transition plans with a principles-based disclosure.
- Any climate-related target or goal that has materially affected or is reasonably likely to materially affect the registrant's business, results of operations, or financial condition, including specific quantitative and qualitative disclosures regarding material expenditures and material impacts on financial estimates and assumptions
  - *Key changes from the proposal:* The final rules add a materiality qualifier in determining the targets and goals requiring disclosure and move certain disclosures that had been proposed to be included in the financial statements to outside the financial statements.

## Greenhouse gas emissions

Large accelerated and accelerated filers are required to disclose scope 1 and scope 2 greenhouse gas (GHG) emissions, if material. Emerging growth companies (EGCs) and smaller reporting companies (SRCs) are exempt from emissions disclosures. In determining whether scope 1 and scope 2 GHG emissions are material, the SEC highlighted situations when the calculation and disclosure of emissions data are necessary to allow investors to understand a registrant's transition risks and progress made toward achieving a disclosed target or goal.

The rules require disclosure of gross scope 1 and scope 2 emissions as well as disclosure of constituent gases, if individually material. In addition, the rules require a registrant to disclose the method used to determine its organizational boundary as well as any material differences from the registrant's consolidated financial statements. Further, the final rules require disclosure about the "protocol or standard" used to report GHG emissions, including information about the methodology, significant inputs, and significant assumptions used to calculate GHG emissions. This could be based on the Greenhouse Gas Protocol's standards or another standard.

Registrants will have additional time following the filing of their annual reports to provide the scope 1 and scope 2 disclosures. For domestic registrants, the information must be filed by the due date of the Form 10-Q for the second fiscal quarter; foreign private issuers must file any required GHG disclosures within a similar timeline. In addition, the final rules require registrants to obtain independent attestation of any required scope 1 and scope 2 GHG emissions. These attestation requirements are subject to a phase-in period, beginning with limited assurance. Only large accelerated filers will be required to eventually obtain reasonable assurance.

- *Key changes from the proposal:* The final rules include significant changes to GHG emissions disclosure requirements. In addition to the fact that the scope 1 and scope 2 disclosures are no longer mandatory for all registrants, notable changes include the elimination of scope 3 disclosures, additional flexibility in the determination of the organizational boundary, the removal of GHG intensity metrics, and changes to the attestation requirements.

#### Financial statement disclosures

Registrants will be required to disclose certain climate-related financial statement effects and related disclosures in a footnote to the audited financial statements; however, the extent of information required to be disclosed differs significantly from the proposal.

Separate disclosure is required of the impacts from severe weather events and other natural conditions relating to (1) capitalized costs and charges, and (2) expenditures expensed as incurred and losses. Any recoveries related to these amounts must also be disclosed.

The disclosure of capitalized costs and charges is required only if the absolute value of the aggregated impact is 1% or more of the absolute value of stockholder's equity or deficit as of the end of the relevant fiscal year, subject to a \$500,000 de minimis threshold. The disclosure of expenditures and losses is required if the aggregated impact is 1% or more of the absolute value of income or loss before taxes for the relevant fiscal year, subject to a \$100,000 de minimis threshold.

The rule clarifies that if the severe weather event or other natural condition is a significant contributing factor in incurring an expenditure, loss, capitalized cost, charge, or recovery, the entire amount must be included in the disclosure, with separate disclosure of where amounts are presented in the financial statements.

Additional quantitative financial statement disclosures are also required for amounts expensed and capitalized, or losses incurred related to carbon offsets and renewable energy credits (RECs) if they are a material component of plans to achieve climate-related targets or goals. Finally, the rules require qualitative disclosures regarding financial estimates and assumptions materially impacted by (1) severe weather events and other natural conditions or (2) disclosed targets or transition plans.

#### XBRL

The new rules require information to be tagged using inline XBRL beginning with fiscal years beginning in 2026 for large accelerated and accelerated filers (other than EGCs and SRCs), and fiscal years beginning in 2027 for all others.

## What's next?

Although the earliest effective dates start with reporting on 2025 information in 2026, with additional delays for smaller companies and greenhouse gas emissions disclosures, given the volume of information required, registrants should start to prepare now.

Initial compliance dates are based on the year the registrant's fiscal year begins and vary depending on the particular provisions and type of filer:

Registrant type	Disclosure and financial statement effects <sup>(1)</sup>	GHG emissions and related assurance		
	Disclosures, other than GHG emissions <sup>(2)</sup>	Scope 1 and scope 2 GHG emissions	Limited assurance	Reasonable assurance
Large accelerated filers	FYB 2025	FYB 2026	FYB 2029	FYB 2033
Accelerated filers (other than SRCs and EGCs)	FYB 2026	FYB 2028	FYB 2031	Not applicable
SRCs, EGCs, and non-accelerated filers	FYB 2027	Not applicable	Not applicable	Not applicable

<sup>(1)</sup> As used in this chart, "FYB" refers to any fiscal year beginning in the calendar year listed. For example, a calendar year-end domestic large accelerated filer would begin including disclosures in its December 31, 2025 Form 10-K. Information for prior periods is only required to the extent it was previously disclosed in an SEC filing.

<sup>(2)</sup> There are three specific Regulation S-K disclosures (Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)) related to the qualitative and quantitative impact of material expenditures incurred and material impacts on certain financial estimates and assumptions for which the effective date is one year later than listed in this table.

The new rules call for a dramatic change in the nature and extent of disclosures companies are required to make about the impact of climate-related risks. The gathering and reporting of these incremental disclosures may require significant changes to a registrant's systems, processes, and controls. Effective adoption will require cross-functional coordination among finance, financial reporting, legal, investor relations, and others.

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