Info Memo: SEC Rulemaking on Climate Disclosures

The Securities and Exchange Commission (SEC) published a proposed rule on March 21, 2022 that would require public companies to make annual climate-related financial disclosures—like their vulnerability to climate disasters, their current level of greenhouse gas emissions, and whether they have a strategy to address their climate-related financial risks.

This rule is needed because the current practice of relying on companies' *voluntary* climate disclosures is inconsistent, inefficient, and costly. Investors spend significant time and money on shareholder voting initiatives to fill info gaps, and on verifying the unreliable information they can currently access. Smaller investors especially lack access to reliable information.

Given the growing economic risks caused by the climate crisis and the shift away from fossil fuels, petrochemicals and carbon-intensive industry, **investors want—and need—more standardized info about companies' climate-related financial risks, their contributions to climate change, and their plans for competing in a low-carbon economy.** The SEC has clear authority and responsibility to ensure this info is freely available to all current and prospective investors, not just large financial institutions with vast resources.

Proposal Text and **Factsheet** **(Comments due May 20th, 2022)**

Topline: This is an important and thoughtful proposal that would elicit meaningful, comparable disclosures that investors need to assess climate-related financial risks. There are a few key areas that should be strengthened.

Proposal Strengths

- Detailed qualitative disclosures around climate strategy, governance, and risk management consistent with the Task-Force for Climate-Related Financial Disclosures (TCFD), the most common voluntary reporting framework in use today
- Detailed disclosures about public net zero commitments, the use of carbon offsets to achieve net zero, and the impact of climate change and transition activities on the issuer's audited financial statements
- Greenhouse gas (GHG) emissions[1] reporting (Scopes 1 and 2), in absolute terms, not counting any purported avoided or reduced emissions, phased in over five years for most issuers (largest firms start disclosing for FY2023) with third-party assurance
- Incorporation of most disclosures into SEC filings (Form 10-K)

Opportunities to Strengthen

- Scope 3 (value chain) GHG emissions are only required if they are "material" as determined by the issuer, or if they have set a public Scope 3 emissions target. This should be made mandatory for all large registrants (Question 98)
- The proposal should incorporate more disclosures around environmental justice, just transition for dislocated workers, and community-level impacts (Question 15)

---

[1]Defined in a manner consistent with GHG Protocol, the most common voluntary accounting methodology. Scope 1 emissions come directly from the issuer's facilities; Scope 2 from purchased electricity, steam and heat; Scope 3 from issuer's products, suppliers, and value chain.