CNM LLP
Technical Advisory Firm

SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures

by

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Overview

Today's investors and stakeholders have been demanding more disclosures around climate-change as they recognize that climate risks can pose significant financial risks to companies, and investors need reliable information about climate risk to make informed investment decisions. In response, the SEC has issued its long-awaited climate disclosure proposal. (Proposed Rule)

The proposal, if adopted, would require both domestic and foreign registrants to include certain climate-related information in their registration statements and periodic reports, such as a Form 10-K, including:

- Climate-related risks and their actual or likely material impacts on the business, strategy, and outlook
- Governance of climate-related risks and relevant risk management processes
- Greenhouse gas (GHG) emissions, which, for accelerated and large accelerated filers and with respect to certain emissions, would require assurance. The GHG disclosures are categorized as follows:
  - Scope 1 - Direct GHG emissions from operations they own
  - Scope 2 - Indirect GHG emissions from purchased electricity and other forms of energy
  - Scope 3 (if material) - Indirect emissions from upstream and downstream activities in a registrant's value chain
- Certain climate-related financial statement metrics and related disclosures in a note to its audited financial statements
- Information about climate related targets and goals, and transition plan, if any

Comments on the proposed amendments are due 30 days after posting in the Federal Register or May 20th, whichever is later.

Background

Upon taking office in 2020, President Joe Biden's administration identified climate change as one of his immediate priorities. Central to his priorities was for the SEC to issue new regulations that would require companies to include more climate-related disclosures. The focus on financial regulation and climate change disclosures has been embraced worldwide by many advanced countries over the past few years. The SEC quickly moved on the administration's priorities and the Division of Corporate Finance issued a statement in February 2021 that they would enhance their focus on climate-related disclosures in public filings based on the 2010 guidance.

In March of 2021, the climate related disclosures were added to enforcement priorities, a new task force to focus on climate change was formed and a public consultation was issued on climate change disclosures. About 550 comments were received, with 75% of respondents supporting mandatory climate change disclosure rules. Respondents believed that climate information was material to financial performance and wanted consistent reliable disclosures.

With Gary Gensler's confirmation as SEC chair in April 2021, followed by subsequent statements around climate change disclosures, it was evident that the SEC's focus on climate change continues to be one of its top priorities. In September 2021, the SEC issued a Sample Letter to Companies Regarding Climate Change Disclosures, which provided typical comments the Staff issues to registrants as part of their review process.

The proposed rules draw on the framework developed by the Task Force of Climate-related Financial Disclosures (TCFD) and the Greenhouse Gas Protocol that are already used around the world.

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Transition Period

Companies with a December 31 fiscal year end would be required to comply as follows, assuming the rules are adopted by the end of the 2022:

Registrant Type	Compliance Date		
	All Disclosures except for Scope 3	**Scope 3 GHG emission disclosures**	**Assurance on Scope 1 and Scope 2 GHG disclosures**
Large accelerated	Fiscal year 2023	Fiscal year 2024	Limited assurance -2024 Reasonable assurance - 2026
Accelerated	Fiscal year 2024	Fiscal year 2025	Limited assurance -2025 Reasonable assurance - 2027
Non-accelerated	Fiscal year 2024	Fiscal year 2025	Exempt
Smaller Reporting Company	Fiscal year 2025	Exempt	Exempt

Note: Currently, the proposal applies to companies, including emerging growth companies, that are entering the US capital markets for the first time, either through an IPO or acquisition target of public companies in a Form S-4. It does not provide relief for recently acquired companies.

What Should You Do Now?

Since most of the climate-related disclosures are largely non-financial, it is expected that it will take a longer period to develop and implement the processes and related controls over these disclosures. Registrants should not wait until they are required to implement the proposal to get started. In preparation for these new rules, registrants should start by:

- **Policies and Procedures**: Registrants should develop a climate-related disclosure reporting strategy based on internal and external expectations and the required disclosures in the proposal.
- **Assurance Readiness Assessment**: For registrants that will be required to disclose Scope 1 and 2 GHG emissions, they should assess their readiness for assurance. They will need to assess how they will effectively collect, analyze and reporting information that is complete and accurate. New controls over these disclosures will need to be designed, implemented, and tested for operating effectiveness.
- **Board and Management Oversight**: Registrants should consider the board's role in overseeing the governance and risk management of, and management's role in assessing and managing, the entity's climate-related risks and opportunities. The board should consider whether they need a member with climate-related expertise.
- **Evaluate current disclosures**: Many registrants are already including certain climate related disclosures. They should evaluate existing disclosures and identify areas that require improvement or new accounting or reporting infrastructure and take advantage of any existing processes and controls around existing disclosures.
- **Evaluate current climate goals and net zero plans**: Registrants should review current climate goals and commitments and ensure that there is a developed plan in place to ensure compliance.

Who is CNM?

Founded in 2003, CNM is recognized as one of the premier technical advisory firms in Southern California with Big 4 experience that provides the responsive customer service of a boutique firm. And we're a dynamic team that enlists all our energy to help transform the way your company does business – carefully evaluating your needs, simplifying your financial processes, and passionately solving problems in the most cost-effective way.

Our extensive knowledge of US GAAP, ICFR and SEC reporting skills has given us the ability to assist our clients with transactions that are not only multifaceted, but the capability to implement new or complex accounting standards. We have over 175 partners and employees in our Los Angeles, Orange County, San Diego, and New York City offices. Many of our clients are developed from direct referrals from the Big 4 accounting firms, speaking to the level of quality services we provide.

To learn more about how we can help, visit our website at www.cnmllp.com.

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