Intending to provide clear reporting obligations for issuers, and to provide consistent, comparable, and decision-useful information for investors, on March 21, 2022, the Securities and Exchange Commission (SEC) proposed a landmark climate disclosure rule that would mandate SEC registrants to disclose greenhouse gas (GHG) emissions and certain materials risks relating to climate change.

The proposed rule would significantly change the climate-related disclosure requirements for public companies. For most companies the effort needed to comply with the disclosure requirements will be substantial, and the time to begin preparing is now.
The proposed rule would require:

- The disclosure of climate-related risks, governance, financial impacts, and GHG emissions;
- Assurance for GHG emissions for accelerated and large accelerated filers, and an inline XBRL tagging requirement;
- The addition of a financial statement footnote for climate-related financial statement metrics; and
- Climate disclosures that would be subject to assurance and internal controls over financial reporting.

The proposed rule would require that registrants disclose information about:
(i) their direct greenhouse gas emissions (Scope 1 emissions) (ii) indirect emissions from purchased electricity or other forms of energy (Scope 2 emissions), and (iii) emissions from upstream and downstream (e.g., suppliers and customers) activities, if material or included in their emissions goals (Scope 3 emissions). Accelerated filers and large accelerated filers would be required to include an attestation report from an independent attestation service provider covering Scope 1 and Scope 2 emissions.

If adopted, the proposed rule will create a new subpart of Regulation S-K[1] and add a new article to Regulation S-X[2]. Mandated Regulation S-K disclosures, such as various aspects of climate-related risks, Scope 1 and Scope 2 emissions, and description of the reporting company's analytical process, would be included as part of Form 10-K in a separate, appropriately-captioned section.[3] Mandated Regulation S-X disclosures, such as impact of climate-related events and expenditures made to mitigate risks of such events, would a mandated note to the company's financial statements.[4]

Reporting companies and compliance professionals should monitor the rule review closely, as these changes will likely require significant changes to internal processes, which will take remarkable effort and time to overhaul.

The SEC is accepting comments of the proposed rules until May 20, 2022. Given the anticipated impact and cost of the rules as proposed, commenting on the proposal could be impactful. Dinsmore attorneys are monitoring these developments and are prepared to help.

ENDNOTES

Additional disclosures are required for companies that have publicly set climate goals.

© 2022 Dinsmore & Shohl LLP. All rights reserved.

Source URL: https://www.natlawreview.com/article/sec-registrants-should-prepare-now-proposed-climate-related-disclosure-rules