

Regulatory Alert

Regulatory Insights

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SEC Climate-Related Disclosure: Final Rule

KPMG Insights:

- **Scaled-Down but Landmark:** Due to the likelihood for litigation and the flurry of comments submitted (over 4,500 unique letters), the final rulemaking overall eases the climate reporting requirements from the original proposal while also emphasizing SEC's rulemaking authority.
- **Higher Risk Focus:** Be prepared for increasing regulatory expectations and scrutiny on climate risk governance, management, controls, data, analysis, testing and assurance.
- **Continued Jurisdictional Differences:** The final rulemaking codifies continued jurisdictional differences across countries/geographies and with individual states (e.g., CA).
- **Commitments/Transition Plans:** Many companies have made public commitments (outside of required reporting) and they will continue to be held under existing investor protection rules in terms of fair advertising/marketing, clear disclosures and product descriptions, etc.).

The Securities and Exchange Commission (SEC or the Commission) [issues](#) its highly anticipated final Climate Disclosure rule – The Enhancement and Standardization of Climate-Related Disclosures for Investors – initially proposed in March 2022.

Key changes from the proposed rule include:

- Scope 3: Eliminating Scope 3 disclosures for all registrants.
- Materiality: Using the standard materiality definition with a specific disclosure threshold for the financial statement disclosures; The use of the 1% threshold has been significantly limited.
- Scopes 1 and 2: Limiting disclosure requirements to Large Accelerated Filers and Accelerated Filers and only when those emissions are material; Exempting Smaller Reporting Companies and Emerging Growth Companies.
- Compliance: Extending certain phase-in periods.

Applicability: Public companies with reporting obligations pursuant to the Securities Exchange Act

Section 13(a) or Section 15(d), and companies filing a Securities Act or Exchange Act registration statement (together, registrants).

Key Provisions: The final rule amends and creates new sections within Regulations S-K and S-X that the SEC believes will provide more consistent, comparable, and reliable information for investors to evaluate climate-related risks to registrants. Key requirements include:

Governance

Board Oversight:

- Identify any board committee or subcommittee responsible for the oversight of climate-related risks and describe the processes by which the board or such committee or subcommittee is informed about such risks.
- Describe whether and how the board of directors oversees progress against disclosed climate-related targets, goals, or transition plans.

Management Oversight:

- Describe management's role in assessing and managing material climate-related risks.
- Disclose applicable management positions or committees responsible for assessing and managing climate-related risks, and the relevant expertise of position holders or committee members.
- Describe the processes by which responsible management positions or committees assess and manage climate-related risks.
- If applicable, disclose whether these positions or committees report information about climate-related risks to the board of directors or a committee/subcommittee of the board.

Strategy, Business Model, and Outlook

- Describe climate-related risks that have materially impacted or are reasonably likely to have a material impact on the strategy, results of operations, or financial condition, with impacts described over the short-term (next 12 months) and long-term (beyond the next 12 months).
- Describe whether the risks are physical or transitional risks.
- Describe the actual and potential material impacts of any identified climate-related risks on strategy, business model, and outlook along with the relevant time frame.
- Describe whether the impacts of climate-related risks have been integrated into the strategy or business model and provide a quantitative and qualitative description of material expenditures incurred and material impacts on financial estimates and assumptions that directly result from activities to mitigate or adapt to a material climate-related risk.
- Describe any activities to mitigate or adapt to a material climate-related risk, including the use of:
 - Transition plans, including metrics and targets.
 - Scenario analysis, including scenarios considered and potential financial impacts.
 - Internal carbon prices, including the price per metric ton of carbon dioxide equivalent (CO2e), the total price, and how the total price is estimated to change over the time periods.

Risk Management

- Describe any existing processes for identifying, assessing, and managing material climate-related risks, including:
 - Identifying whether the organization has incurred or is reasonably likely to incur a material physical or transition risk.

- Deciding whether to mitigate, accept, or adapt to a particular climate-related risk.
- Prioritizing whether to address the climate-related risk.
- Disclose whether and how any processes for identifying, assessing, and managing material climate-related risks are integrated into their overall risk management system or processes.

Targets and Goals

- Disclose any climate-related target or goal if such target or goal has materially affected or is reasonably likely to materially affect the registrant's business, results of operations, or financial condition. *(Note: The target and goals disclosure may be part of the disclosures for Strategy, Business Model, and Outlook or Risk Management.)*
- Disclose any progress made toward meeting the target or goal and how such progress has been achieved. The disclosure would include material expenditures and material impacts on financial estimates and assumptions as a direct result of the target or goal or actions taken to make progress toward meeting such target or goal.
- Disclose use of carbon offsets or Renewable Energy Certificates (RECs). *Note: A registrant must disclose certain information about the carbon offsets or RECs only if they have been used as a material component of a registrant's plan to achieve climate-related targets or goals.*
- Include in the targets and goals disclosure a discussion of any material impacts to the business, results of operations, or financial condition as a direct result of the target or goal or the actions taken to make progress toward meeting the target or goal.

GHG Emissions Metrics

- For Large Accelerated Filers and Accelerated Filers (as defined in the rule), disclose Scope 1 and Scope 2 emissions if such emissions are material.
- Disclose Scope 1 and Scope 2 emissions separately, each expressed in the aggregate in terms of CO2e, and in gross terms, excluding the impact of any purchased or generated offsets. Also disclose separately any constituent gas of the disclosed emissions that is material.
- Describe the methodology, significant inputs, and significant assumptions used to calculate the GHG emissions disclosed. "Reasonable estimates" may be used provided a description of the underlying assumptions and reasoning for using the estimates is included.

- Note: See GHG emissions/assurance levels by registrant type in “Relevant Dates” section below.

Severe Weather Events and Other Information

- Disclose the capitalized costs, expenditures expensed, charges, and losses incurred as a result of severe weather events and other natural conditions, such as hurricanes, tornadoes, flooding, drought, wildfires, extreme temperatures, and sea level rise. The disclosures are subject to applicable one percent and certain de minimis thresholds.
- If carbon offsets or RECs were used as a material component in plans to achieve the disclosed climate-related targets or goals, disclose the aggregate amount expensed, the aggregate amount of capitalized carbon offsets and RECs recognized, and the aggregate losses incurred on the capitalized carbon offsets and RECs.
- Disclose separately the aggregate amount of any recoveries recognized during the fiscal year as a result of severe weather events and other natural conditions for which capitalized costs, expenditures expensed, charges, or losses are disclosed.
- If the estimates and assumptions used to produce the financial statements were materially impacted by risks and uncertainties associated with severe weather events and other natural conditions or any disclosed climate-related targets or transition plans, provide a qualitative description of how the development of such estimates and assumptions was impacted.

Presentation of Disclosure: A registrant must:

- File climate-related disclosures in registration statements and Exchange Act annual reports filed with the SEC.
- Provide Regulation S-K climate-related disclosures either in a separate, appropriately captioned section of its registration statement or annual report or in another appropriate section of the filing, such as Risk Factors, Description of Business, or Management’s Discussion and Analysis, or, alternatively, by incorporating such disclosure by reference from another Commission filing as long as the disclosure meets the electronic tagging requirements of the final rules.
- Electronically tag both narrative and quantitative climate-related disclosures in Inline XBRL.

Safe Harbor: The final rules provide a safe harbor for climate-related disclosures pertaining to transition plans, scenario analysis, the use of an internal carbon price, and targets and goals. The safe harbor provides that all information required by the specified sections, except for historical facts, is considered a forward-looking statement.

Relevant Dates: The final rules become effective sixty days after publication in the Federal Register. For all registrants, compliance will be phased-in based on the registrant’s filer status as a Large Accelerated Filer (LAR), Accelerated Filer (AF), Small Reporting Company (SRC), Emerging Growth Company (EGC), or a Non-Accelerated Filer (NAF).

Compliance Dates under the Final Rules ¹						
Registrant Type	Disclosure and Financial Statement Effects Audit		GHG Emissions/Assurance			Electronic Tagging
	All Reg. S-K and S-X disclosures, other than as noted in this table	Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)	Item 1505 (Scopes 1 and 2 GHG emissions)	Item 1506-Limited Assurance	Item 1506-Reasonable Assurance	Item 1508-Inline XBRL tagging for subpart 1500 ²
LAFs	FYB 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033	FYB 2026
AFs (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A	FYB 2026
SRCs, EGCs, and NAFs	FYB 2027	FYB 2028	N/A	N/A	N/A	FYB 2027

¹ As used in this chart, “FYB” refers to any fiscal year beginning in the calendar year listed.
² Financial statement disclosures under Article 14 will be required to be tagged in accordance with existing rules pertaining to the tagging of financial statements. See Rule 405(b)(1)(i) of Regulation S-T.

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