The SEC's Mandatory Climate Risk Disclosure Plan

Your business needs to know about the U.S. SEC's proposed rules for mandatory climate risk disclosures.

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U.S. public companies may face a dramatically different regulatory landscape in 2023 if the Securities and Exchange Commission (SEC) adopts its proposed rules and mandates detailed climate-related risks, emissions and net-zero reporting.[1]

With the SEC's increased focus on climate-related disclosure, your company must prepare for potential stricter disclosure requirements and regulatory scrutiny.

"Now more than ever, investors are considering climate-related issues when making their investment decisions. It is our responsibility to ensure that they have access to material information when planning for their financial future."

Allison Herren Lee
SEC Acting Chair

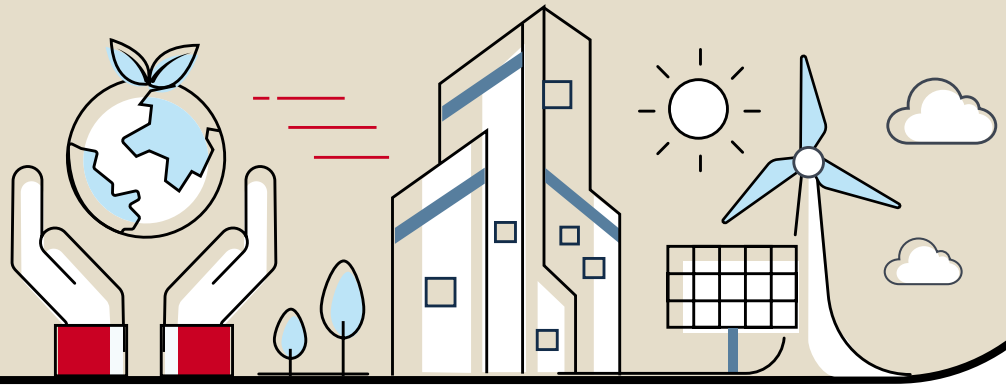
Studies indicate that many public companies disclose environmental, social, and governance (ESG) goals and measurements in annual reports and proxy statements.[2] This trend is influenced by several forces that include:[3]

Investor demands — **91%** of those surveyed said that non-financial performance had played a pivotal role in their investment decision-making.[4]

Supplier transparency — When selecting new suppliers and renewing contracts, **69%** of executives said they consider sustainability performance.[5]

Mandated reporting — **One hundred** countries use approximately **600** sustainability reporting instruments, with more than half mandatory.[6]

Generational shifts — Overall heightened social and sustainability awareness led by the millennial generation.



These trends are growing. Meanwhile, the SEC is concentrating on fixing some key issues with these public reports. One issue is greenwashing, which is when businesses attempt to appear environmentally conscious when their business practices are not. Unfortunately, greenwashing is common, with many companies eager to cash in on consumers' growing interest in sustainability.[7]

The primary issue is the lack of a consistent sustainability disclosure framework. Some key frameworks, among many, come from the Climate Disclosures Standards Boards (CDSB), the Sustainability Account Standards Board (SASB) and the Task Force on Climate-Related Disclosures (TFCD). There are many others. So how can an investor compare companies' sustainability reports and metrics when there are so many different frameworks in use? This is what the SEC particularly wants to solve.

Disclosure frameworks that the SEC is considering

The SEC released its Public Statement on Climate Change Disclosures on March 31, 2022,[8] and the comment period closed in June 2022. They listed three main sustainability frameworks in the proposal: TCFD, CDSB and SASB.

TCFD

The TCFD, established in 2015 by the Financial Stability Board (FSB), is an industry-led initiative created to develop recommendations for voluntary climate-related financial disclosures. The disclosure recommendations are structured around four thematic areas: governance, strategy, risk management, metrics and targets.[9]

CDSB

The CDSB, established in 2007 by the World Economic Forum (WEF), is an international consortium of business and environmental nongovernmental organizations (NGOs). They offer companies a framework for reporting environmental and social information with the same rigor as financial information. Their framework includes 12 reporting requirements ranging from governance to environmental policies and sources of environmental impact.

SASB

The SASB, established in 2011, develops standards for use in corporate filings to the SEC, so investors have comparable non-financial information. Companies are rated in five ESG dimensions: environment, social capital, human capital, business model and innovation and leadership and governance.

Common metrics

Each framework listed recommends specific metrics when reporting climate-related data. The WEF International Business Council (IBC) has further evaluated all these metrics and has developed a common set of non-financial metrics to report sustainable value creation. To the maximum extent possible, the WEF proposal harmonizes these well-established metrics and disclosures from the existing standards.

The metrics are organized into four pillars common to ESG: governance, planet, people and prosperity. They are drawn wherever possible from existing standards and disclosures like those produced by TCFD and SASB.[10]

PRINCIPLES OF GOVERNANCE

Governing purpose

Quality of governing body

Stakeholder engagement

Ethical behavior
- Anti-corruption
- Protected ethics advice and reporting mechanisms

Risk and opportunity oversight

PLANET

Climate change

Nature loss

Fresh water availability

PEOPLE

Dignity and equality
- Gender pay equality
- Diversity and inclusion
- Wage level
- Risk for incidents of child or forced labor

Health and well-being

Skills for the future

PROSPERITY

Wealth creation and employment
- Net number of jobs created
- Net economic contribution
- Net investment

Innovation in better products and services

Community and social vitality
- Community investment
- Country by country tax reporting

WEF summary overview of core metrics and disclosures

Now is the time to prepare

Whether the SEC approves its proposed rule change or not, companies should, at a minimum, start developing climate-risk disclosure plans. Companies who prepare now, ahead of any future regulatory mandates, will be better positioned to meet regulatory requirements. Based on SEC guidance, new rules could include the following climate disclosure information:[12]

1. Summary of your company's climate-related risks likely to impact its business, operations or financial condition.
2. Transition risks describing how your company would adapt to a less-carbon-intensive company or insulate its business from physical risks.
3. Corporate greenhouse gas emissions (GHG) that reflect the organization's latest carbon accounting.
4. Other yet-to-be-determined climate-related financial metrics.

March 2022
SEC released its climate-related disclosures proposal.

June 2022
Public comments due on SEC proposal.

June through September 2022
SEC reviews public comments. regulations.

December 2022
Expect to see the rule finalized and formal legal guidance communicated during this time.

2023
Assuming no legal challenges or action taken by Congress, SEC climate disclosure requirements take effect, and large accelerated filer organizations must track their 2023 ESG strategy, risks and performance to prepare for their SEC reporting.

2024
Qualifying businesses must disclose SEC reporting according to the first set of climate disclosure standards for their 2023 financial year.

Preparing for the new SEC climate regulations

The preparatory steps highlighted here are just a sample of the key activities your organization should conduct to prepare for the SEC regulatory changes.

Build a cross-functional team responsible for guiding your company and individual business units.

Establish governance structures and resources to account for upcoming ESG and climate risk disclosure changes at an enterprise and line of business level. Start building your network both within and outside your organization.

Identify gaps in operational readiness and create a high-level readiness plan to address those gaps and determine the impact on your overall ESG strategy and governance.

Educate and familiarize your company with existing ESG and climate risk disclosure frameworks and establish your plan for additional metrics, data monitoring and processes.

Assess current ESG and climate-related efforts. Ask yourselves what has your company disclosed and not disclosed, and do your metrics support what you disclosed? Use existing frameworks as an assessment guide.

Select one reporting framework and begin collecting the data to build your ESG and climate-related reporting program.

Wondering how to start?

Collecting data and reporting your climate-related metrics calls for close attention to detail. It requires you to decide how to communicate the information as part of your other company disclosures, such as your annual financial reporting. Reporting will become significantly more manageable if you use a third-party sustainability reporting platform to help you through the process.

Sustainability software platforms are more accurate than manual data collection methods as they consolidate all your metrics into one place, creating ease of access. Furthermore, sustainability software helps you save time through automated data chasing, status reports and templated reports while reducing mistakes by automated quality checks and calculations. A software solution can also flag missing and inconsistent data and analyze performance versus targets, so you do not need to spend time scrutinizing data.

Some sustainability software even helps you to automate complex calculations, such as carbon footprint, and report directly to standards such as CDP, SASB and GRI with built-in templates. Communicating results to various stakeholders becomes seamless with software that does your work.

UL Solutions 360 Sustainability Essentials can help you organize complex data, keep you in regulatory compliance and demonstrate to your customers that you are serious about protecting the environment.Learn more about this investment-grade sustainability data management system.

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