

SEC Proposes Long-Awaited Climate-Related Disclosure Rules

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On March 21, 2022, the Securities and Exchange Commission (the “Commission”) proposed its long-anticipated climate-related disclosure rules that would require public companies to make disclosures of greenhouse gas (“GHG”) emissions and climate-related risks that are reasonably likely to have a material impact on their business, results of operations or financial condition in their registration statements and annual reports. Public companies currently disclose varying degrees of climate-related information utilizing disclosure frameworks developed by standard-setters, investor demands and other groups. In response to climate-related attention and investor focus, the Commission has proposed *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (the “Proposed Rules”), which would require public companies to provide disclosures on a “common set of qualitative and quantitative climate-related disclosure topics in their filings” to provide “consistent, comparable, and reliable—and therefore decision-useful—information to investors to enable them to make informed judgments about the impact of climate-related risks on current and potential investments.”

In an effort to standardize the methodologies companies apply in disclosing climate-related information, the Proposed Rules incorporate certain concepts and vocabulary of the climate-related reporting framework established by the Task Force on Climate-Related Financial Disclosures (“TCFD”) and the accounting and reporting standards for GHG emissions in accordance with the Greenhouse Gas Protocol (“GHG Protocol”). Under the Proposed Rules, public companies would be required to disclose emissions that occur from the sources owned or controlled by the company (Scope 1) and emissions resulting from the generation of electricity (or other sources of power) purchased and consumed by the company (Scope 2) and, in certain circumstances, all other indirect emissions in the company’s value chain, upstream and downstream (Scope 3). The Proposed Rules would require companies to disclose Scope 1 and Scope 2 emissions for their most recently completed fiscal year (along with GHG emissions for the historical fiscal years included in consolidated financial statements), together with a description of the methodologies, significant inputs and significant assumptions used to calculate such emissions. Given that public companies and investors have gravitated towards the TCFD framework and the GHG Protocol, the Commission sought to incorporate many of their concepts and vocabulary into the Proposed Rules to mitigate the compliance burden for companies and reduce the burdens encountered by investors in analyzing and comparing disclosures.

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