EARLY IMPRESSIONS

U.S. Securities and Exchange Commission's Climate Disclosure Rules

March 2024

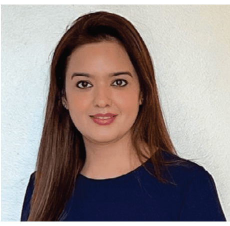
Foreword

In March 2024, U.S. Securities and Exchange Commission (SEC) voted to adopt a set of rules around climate-related disclosures from U.S. public companies, referred to as 'The Enhancement and Standardization of Climate-Related Disclosures for Investors'. The rules, first proposed two years ago in March 2022, are intended to create higher transparency, consistency, and standardization around reporting of climate-related matters. While public company investors, such as institutional asset owners, require information about whether and how these companies are managing physical and transition risks of climate change, there has been a lack of reliable data in public company disclosures around these risks. Furthermore, U.S. companies have lacked clarity around the standards to which they should adhere around climate-related disclosures. While the final rules have a more limited scope from the original proposal, they will still advance climate-related corporate reporting and accountability in the country.

As stakeholders become more aware and concerned with potential climate-related impacts on businesses, ESG disclosure has become one of the top priorities for business leaders worldwide. Across the globe, governments are beginning to regulate businesses' disclosure of ESG and climate data. The European Union's Corporate Sustainability Reporting Directive (CSRD) provides a roadmap for global companies that are generating over €40 million revenue in Europe, or meet a variety of other headcount or asset thresholds, to provide disclosures per the European Sustainability Reporting Standards (ESRS). Similar disclosure requirements are already implemented or in progress across other major market jurisdictions, such as China, Japan, India, the UK, and Brazil.

While Europe has been at the forefront in establishing these corporate sustainability disclosure regulations, the U.S. is following closely behind. In California, Senate Bill 253 will soon require companies with revenues of over $1B operating in the state to disclose Scope 1, 2, and 3 emissions, while Senate Bill 261 will also require companies with revenue of over $500M operating in the state to report on climate-related financial risks, both within the next five years. The SEC's climate-related regulation will have a more widespread impact across the United States—providing various stakeholders with consistent, comparable, and reliable climate risk data that can be used to inform financial and policy decisions related to public companies and capital markets. Uniqus has been anticipating the rules since they were first announced and has prepared our Early Impressions and recommendations in this reference guide to help public companies understand the forthcoming regulatory requirements.

We sincerely hope you find the enclosed publication informative. We would be happy to participate in any discussions to provide clarifications on our views captured in the pages that follow. We look forward to hearing from you.



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An overview of the SEC climate disclosure rules

Under Regulation S-K and S-X, the adopted SEC rules require public company registrants to disclose both qualitative and quantitative climate related information in registration statements, Exchange Act reports and consolidated financial statements (e.g., Form 10-K, Form 10Q), and electronically tagged using Inline XBRL. In-scope companies will be required to disclose material climate-related risks to their business and operations, board and management oversight over such risks, information on material climate-related targets or goals, and details on material greenhouse gas (GHG) emissions for certain in-scope companies. In addition, independent attestation will be required around GHG disclosures for companies required to report on their carbon emissions. The final rules include a phased-in, proportionate timeline for all U.S. public registrants to comply with the disclosure requirements.

Who does it apply to?

The new SEC rules around annual report and financial statement disclosures, registration statement disclosures, and electronic tagging will apply to all publicly traded companies in the United States under the SEC's purview – these include Large Accelerated Filers, Accelerated Filers, Smaller Reporting Companies, Emerging Growth Companies, and Non-Accelerated Filers.

Requirements around material GHG emissions disclosures will only apply to Accelerated and Large Accelerated Filers. These companies will eventually be required to get their Scope 1 and 2 emissions disclosures subjected to limited assurance by an independent auditor on a phased-in, proportionate basis, and later rising to the reasonable assurance level for Large Accelerated Filers only.

The rules may also have an knock-on effect upon private companies, who may face increased pressures from investors to follow the best practice disclosure actions of their public company peers, especially as these private companies prepare to enter the U.S. public market in the future.

What needs to be disclosed?

Overall, in-scope companies need to disclose material climate-related risks, oversight of such risks by the registrant's board of directors and executive management, GHG emissions when material, and information on any climate-related goals and targets if established. The requirements of the rules align closely with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), and overlaps with the four pillars of the TCFD recommendations are illustrated below:

Governance	Strategy	Risk Management	Metrics and Target
Companies' board and executive governance of material climate-related risks	Companies' material climate-related risks and their actual or likely material impacts in the short term (next 12 months) and long term (more than 12 months) on their strategy, business model, financial conditions, and outlook, alongside material expenditures associated with climate-related physical and transition risks	Relevant processes used to identify, assess, and manage climate-related risks, alongside any activities undertaken to mitigate or adapt to them	Larger companies' direct GHG emissions, which would be subject to proportionate independent assurance requirements, as well as any targets or goals which likely or in actuality materially affect those companies' strategy, business model, financial condition, and outlook

Disclosure of Climate Risks

The requirements include disclosure of material climate risks and associated impacts on business condition or financial estimates and assumptions. Climate risks are comprised of a combination of physical and transition risks. Companies would be required to disclose risk identification, assessment, and management processes, as well as internal structures for oversight and governance at the board and senior management levels. These disclosures would be written in registration statements and 10-Ks in new separate sections, other appropriate existing sections, or referenced from another SEC filing that meets Inline XBRL electronic tagging requirements.

- Physical risks affect companies with assets concentrated in regions exposed to chronic and acute changes in climate patterns, such as severe weather events (e.g., floods, wildfires, hurricanes, and droughts) or other natural conditions, that might be affected in frequency and intensity by climate change.

- Transition risks affect companies through the global shift to a low carbon economy, represented by legal, regulatory, policy, technology, and market changes. Stranded asset risk, for example, would qualify as a transition risk.

The rules also require in-scope companies to report expenditures (revenue as well as capital) and losses incurred due to severe weather events and other natural conditions as disaggregated disclosures in their notes to the financial statements, if the aggregate amount of expenditure is >= 1% of the absolute value of profit/loss before taxes or >= 1% of the absolute value of stockholders equity. While companies are not required to disclose an explicit assessment of whether these events resulted from climate change, these disclosures will nonetheless provide investors with greater transparency around the physical risks from climate change that companies face. Companies must also qualitatively report within a note to the financial statement whether the estimates and assumptions they used to produce the financial statements were materially impacted by risks and uncertainties associated with any severe weather events, natural conditions, climate-related targets, or transition plans. These footnote requirements are not subject to audit but are subject to reporting standards.

Disclosure of GHG Emissions

Public companies that are classified as Accelerated and Large Accelerated Filers under the SEC's purview would be required to report on their direct (i.e., Scope 1 and 2) GHG emissions if deemed material. The table below explains how GHG emissions are categorized among Scope 1, 2, and 3 in company operations, and it also indicates companies' obligations for disclosure under the SEC's climate rules.

Scope Category	Disclosure Description	Obligation
Scope 1	Sources of GHG emissions from owned or controlled sources (e.g., fuel combustion, vehicles, fugitive emissions)	Mandatory if Material
Scope 2	Sources of GHG emissions from generation of purchased electricity, steam, heating, and cooling consumed	Mandatory if Material
Scope 3	All other indirect sources of GHG emissions from the value chain, both upstream and downstream (e.g., purchase of goods and services, business travel, use and end-of-life treatment of sold goods and services, transportation and distribution, investments, leased assets and franchises)	Not Mandatory

Emissions reporting would include Scope 1 and 2 GHG emissions if such information is 'material' to a reasonable investor – a materiality threshold previously set by the Supreme Court and used by the SEC for other requirements around investor-grade disclosures. That is, in-scope companies would need to report on their Scope 1 and 2 emissions disclosures if a reasonable investor would consider such information important in decisions related to her investment or voting decisions. Notably, a previously proposed Scope 3 emissions disclosure mandate has been removed from the finalized rules.

These disclosures will be required in a newly created section of annual SEC report, Form 10-K (Item 6). Or, in-scope companies may be granted certain accommodations to disclose their emissions for the fiscal year on a delayed basis – such as two fiscal quarters later in Form

10-Qs for domestic registrants, in annual report amendments for foreign private issuers, or 225 days prior to the effective date for those filing registration statements.

When reported, Scope 1 and 2 emissions disclosures will eventually be subject to limited assurance for both Accelerated and Large Accelerated Filers, later followed by reasonable assurance requirements for Large Accelerated Filers.

Disclosure of Climate-Related Goals and Targets

The final rules dictate that, if as part of their strategies, in-scope companies take actions to mitigate or adapt to identified material climate-related risks, they must disclose the specific activities undertaken (e.g., use of transition plans, climate scenario analyses, or internal carbon prices) alongside a quantitative and qualitative description of material costs incurred or financial impacts projected due to such activities. They must also disclose how any established climate-related targets or goals affect or are likely to impact their business, result of operations, or financial condition. For example, in-scope companies may choose to set climate-related targets or goals. If these companies utilize carbon offsets or renewable energy certificates (RECs) as a material component of their developed climate transition plans, they would be required to report associated costs as disaggregated disclosures in their notes to the financial statements. Again, these footnote requirements are subject to financial reporting but not audit standards.

When do companies need to be compliant?

The final rules will become effective 60 days after publication in the Federal Register, and the requirements will phase in for different in-scope companies on a proportionate basis. The below table summarizes the phase in timelines for various registrant types. For example, the largest of in-scope companies will need to begin reporting on most registration and financial statement requirements as soon as FY 2026 for the prior fiscal year, while disclosures of material direct GHG emissions and material expenditures associated with severe weather events, use of climate mitigation and adaptation measures, and use of carbon offsets and RECs would apply in FY 2027 for the prior fiscal year. As aforementioned, an accommodation exists that allows for GHG emissions disclosures to be filed on a delayed basis.

Registrant Types	Financial Statements and Climate Risk Disclosures	Material Expenditure Footnote Disclosures	GHG Emissions Disclosures	Limited Assurance of GHG Emissions	Reasonable Assurance of GHG Emissions	Electronic Tagging Inline XBRL
Large Accelerated Filers	FY 2025	FY 2026	FY 2026	FY 2029	FY 2033	FY 2026
Accelerated Filers	FY 2026	FY 2027	FY 2028	FY 2031	Not applicable	FY 2026
Smaller Reporting Companies Emerging Growth Companies Non-Accelerated Filers	FY 2027	FY 2028	Not applicable	Not applicable	Not applicable	FY 2027

***Source**: U.S. SEC Fact Sheet - The Enhancement and Standardization of Climate Related Disclosures: Final Rules*

Uniqus Point of View

Many public companies in the U.S. will be required to disclose material climate-related information and Scope 1 and 2 emissions under the SEC's climate rules. In-scope businesses should prepare for compliance, beginning by assessing their Scope 1 and 2 emissions. Although not mandated by the SEC rules, many companies may also voluntarily report their Scope 3 emissions since some investors consider these to be relevant dependent on the nature of a company's products or services (e.g., financed emissions for financial institutions).

Private companies preparing to go public should also prepare for these disclosure requirements, as they may face increased pressure from their investors to follow the market-leading disclosure practices of their public company peers. These companies can begin taking proactive measures in preparation for the SEC rules. Companies should be mindful of the following recommendations when approaching the new SEC regulations.

01

Focus on building understanding around TCFD elements as it is a strong foundation for SEC reporting compliance.

The SEC regulations are modeled around the TCFD framework, which is the best practice standard around climate-related corporate disclosures. If companies are already reporting in line with TCFD, the SEC rules should not pose significant additional burden around their disclosures. While there are slight variations between the SEC rules and the TCFD framework, there is significant overlap primarily with the TCFD's four main pillars: Governance, Strategy, Risk Management, and Metrics and Targets. Therefore, firms which build a strong understanding around fundamentals of the TCFD recommendations should be well-prepared to disclose under the SEC's rules.

02

Leverage a phased approach to prioritize efforts for emissions reporting.

For those subject to GHG emissions disclosure requirements, in-scope companies should consider starting Scope 1 and 2 emissions reporting as early as feasible and prioritize the emissions categories where they have the most information and data. In addition, some emissions categories may be more material to a company (e.g., vehicle emissions for a transportation business), and efforts should be focused where emissions are likely the greatest. It is important to have a high degree of transparency in reporting, clearly explain any assumptions made, and provide details around the progress of any improvements made over time. This will assist with reporting and independent attestation requirements and give investors confidence in the data being disclosed.

03

Prepare for independent assurance as the SEC rules also include independent attestation requirements for GHG disclosures.

Assurance is anticipated to have a significant impact on risk management and fulfilling climate-related reporting obligations. Larger in-scope companies will need to collaborate with independent auditors and sustainability experts to validate the credibility of their disclosures. Scope 1 and 2 emissions disclosures would eventually begin with limited assurance, followed by reasonable assurance for the largest of in-scope companies. Creating strong reporting frameworks and processes, embedded within the internal controls of the organization, can help a company ensure accurate and consistent disclosures to prepare for external validation.

04

Leverage technology to your advantage for climate data management and disclosure processes.

There are several software tools and platforms available to assist companies with reporting requirements around GHG emissions and climate-related risk management processes. Companies should consider leveraging a tool that can collect data, calculate emissions, and generate reports. Technology enhances the traceability of data, which in turn facilitates validation and more accurate reporting. Specialized technology tools can assist companies with a variety of ESG-related reporting needs, including carbon accounting and decarbonization strategy, supply chain ESG management, and ESG data management and reporting, among others.

05

Collaborate cross-functionally for better data and a more efficient process.

Given the emissions data required for GHG emissions reporting, companies will need to work closely with teams across the organization and with external stakeholders to identify climate-related risks and opportunities. The SEC will require in-scope companies to have established data monitoring, collection, and reporting structures in place. Thus, cross-departmental and external collaboration is key. Given the SEC's emphasis on collaboration at the board of directors level, plans should be developed to provide periodic briefings to the board on climate-related topics to enable their oversight role. As an ESG managed services provider, Uniqus has the expertise needed to engage with and provide training for board and senior management teams on climate and sustainability-related matters.

06

Build organizational capacity by leveraging and upskilling internal talent, or hiring external consultants to simplify the process.

Companies should build capacity necessary to address the SEC's requirements, as these skills may not readily be available within the organization. Capacity building should be focused around allowing companies to identify and understand material climate considerations relevant to their business, assess potential risks and controls, collect emissions data, and prepare for reporting requirements. This is especially recommended for companies with material climate-related risks, limited in-house experience and bandwidth, or complex value chains.

07

Anticipate Scope 3 GHG emissions disclosures to become increasingly best practice, while recognizing that Scope 3 emissions are considerably more complex than Scope 1 and 2 emissions.

For companies already disclosing Scope 1 and 2 emissions, voluntary Scope 3 reporting will become a market-leading practice that can differentiate companies in terms of corporate sustainability reporting. This is important, as although the SEC's rules do not mandate disclosure of Scope 3 emissions, these sources often constitute most embedded emissions within an organization's value chain, and investors may therefore find them material. However, Scope 3 emissions reporting will produce additional challenges due to the complexity, non-standardized accounting methodology, and availability of data needed for Scope 3 reporting.

The GHG Protocol defines Scope 3 emissions as "all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions."[1] The extent of Scope 3 is vast, and companies should be aware of the following challenges with reporting.

- **Data collection:** Companies will need to work with suppliers to gather and understand data related to their emissions. This will require significant coordination and gaining buy-in from stakeholders.
- **Data quality:** Scope 3 data can be inaccurate and variable. Companies will need to ensure that data is as reliable as possible, or clearly define any assumptions or estimations made.
- **Reporting standards:** Companies will need to choose a framework that suits their needs, such as the GHG Protocol.
- **Cost and complexity:** Scope 3 reporting can be expensive, depending on the complexity of the company's value chain.

To be well-prepared for upcoming disclosures, companies can preemptively conduct a thorough assessment of data availability and significant climate-related risks and opportunities within their own operations and across their value chain.

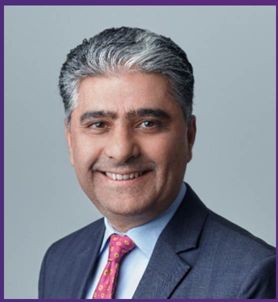
1 *https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf*

Conclusion

As the SEC's climate disclosure rules come into effect, focusing on universal aspects and common themes in regulations and frameworks can be paramount. The SEC's rules indeed have major overlaps with similar regulatory standards and voluntary frameworks around climate-related disclosures, including the EU CSRD, California climate laws, and the ISSB Standards and TCFD recommendations. Companies which prepare for these disclosure standards should be better prepared to report against the new SEC's rules. Like these other standards, the SEC's rules will not only facilitate greater transparency for investors to understand any climate risks associated with their investments but will also provide companies enhanced understanding and management of their own climate-related risks and opportunities. Although the implementation of the SEC's rules does not come into force until FY 2025 at the earliest, companies can begin now by building GHG inventories, engaging finance, audit and legal teams, aligning with the TCFD framework, as well as establishing appropriate governance and oversight mechanisms.

As a tech-enabled global company that offers ESG and Accounting & Reporting Consulting, Uniqus looks forward to the new corporate climate disclosure baseline that the SEC ushers in. The SEC rules mark a pivotal turning point for companies and investors alike. Embracing these regulations is an opportunity to drive transparency, accountability, and sustainable growth.

A TEAM THAT
YOU CAN TRUST TO DELIVER



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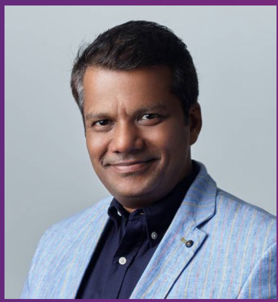

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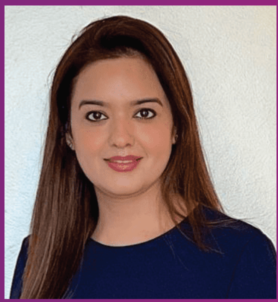

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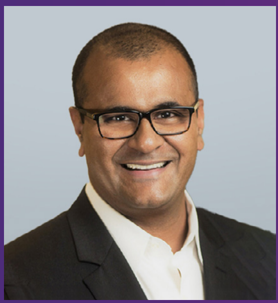

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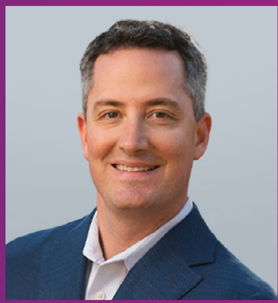

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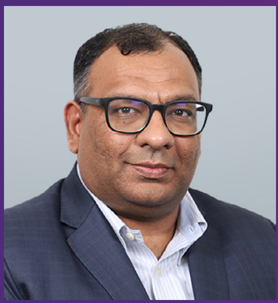

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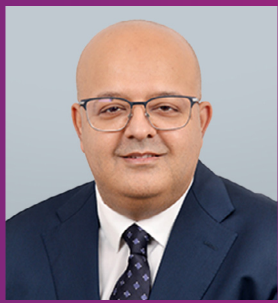

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