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Snapshot

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SEC finalizes rule on climate-related disclosures

On March 6, 2024, the SEC issued its Final Rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, requiring all registrants to include certain climate-related information in their registration statements and annual reports. The SEC has incorporated concepts from existing climate frameworks, such as the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Greenhouse Gas (GHG) Protocol, to design a rule that aims to address investors' need for consistent, comparable, and decision-useful information and to provide registrants with clear reporting requirements.

The Final Rule was issued two years after the release of the initial 2022 proposal, with much of the delay attributable to the substantial number of comment letters submitted by stakeholders seeking changes. Some noteworthy changes compared to the proposed rule include the removal of the reporting requirement for Scope 3 GHG emissions for all registrants, as well as an exemption from all GHG emissions reporting requirements for non-accelerated filers (NAFs), smaller reporting companies (SRCs), and emerging growth companies (EGCs), as defined by the SEC. Additionally, reporting periods will be phased in over a longer time frame compared to the proposed rule, and financial statement disclosure requirements were reduced significantly, including the removal of a requirement to report on the impact of climate-related transition activities.

Grant Thornton insight: Future of the Final Rule

The Final Rule narrowly passed by a 3-2 vote by the SEC commissioners after robust discourse during the meeting. Various states and other organizations have raised formal legal challenges in federal courts against the Final Rule, while others argue in favor of additional disclosures. Federal courts will determine the future of the Final Rule, but in the meantime, we encourage registrants to understand and to prepare for implementing the Final Rule.

Despite these changes, the Final Rule may substantially impact reporting by registrants as early as fiscal years beginning in 2025. This Snapshot summarizes the key technical requirements of the Final Rule that affect the nonfinancial disclosures required under Regulation S-K, as well as the audited financial statements and related disclosures under Regulation S-X, for registrants' filings.

Grant Thornton insight: Internal control considerations

Registrants are required to include the disclosures in S-X Article 14 in the footnotes to the audited financial statements, which are subject to registrants' internal control over financial reporting (ICFR) frameworks. Accordingly, the internal controls developed in response to the new requirements would be within the scope of management's report on ICFR and the auditor's report on ICFR, if applicable, in the first year of disclosure.

We recommend that registrants begin to design and implement these controls to identify applicable transactions as they are recorded in their books and records. This would include implementing controls to identify whether a transaction is due to a severe weather event or natural condition and to determine whether it rises to the level of a significant contributing factor in incurring a cost, expenditure, charge, loss, or recovery. Additionally, controls should be put in place to identify and disclose how financial estimates were impacted by severe weather events and other natural conditions or by disclosed targets and transition plans.

With certain exceptions, the disclosure requirements in S-X Article 14 are among the first to be phased in under the Final Rule. As significant judgment may be required in establishing and carrying out related accounting policy decisions, including making necessary updates to their ICFR frameworks, registrants should not postpone implementing the new disclosure requirements.

The disclosures required in S-K Subpart 1500 are included outside the audited financial statements and are subject to management's disclosure controls and procedures (see the section titled "Regulation S-K" below). As a result, the new disclosures are subject to periodic review and certification from management, including principal executive and financial officers.

Regulation S-K

The Final Rule adds new Subpart 1500 to Regulation S-K, which requires registrants to disclose information about climate-related risks that have materially impacted, or are reasonably likely to materially impact, registrants' business, results of operations, or financial condition. Subpart 1500 also requires the disclosure of information about material GHG emissions for large accelerated filers (LAFs) and accelerated filers (AFs) that could help investors assess those risks. These disclosures may be included in a separate, appropriately captioned section of the 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 (MD&A), or they may be incorporated by reference from another Commission filing.

Grant Thornton insight: Materiality

Materiality is a foundational concept in complying with the Final Rule because it guides the disclosure of climate-related risks and GHG emissions.

The Final Rule describes that when disclosing any climate-related risks that have materially impacted or are reasonably likely to have a material impact, registrants should describe whether such risks are reasonably likely to manifest either over the short-term (within the next 12 months) or over the long-term (beyond the next 12 months); these time frames are generally consistent with information included in MD&A.

Based upon the language within the Final Rule, an entity's materiality determinations for the new climate-related disclosures should be made consistently with the materiality guidance established in federal securities laws and clarified through Supreme Court cases; that is, the subject matter would be material if there is a "substantial likelihood that a reasonable investor would consider it important" or if an omission of the disclosure would be viewed as "having significantly altered the total mix of information" by a reasonable investor.

The materiality determination is based on the particular facts and circumstances of each situation and requires both quantitative and qualitative considerations. Ultimately, registrants should consider consulting with legal counsel when making their materiality determination.

Understanding climate-related risk and why it is important

Understanding the climate disclosures in the Final Rule begins with an understanding of what constitutes "climate-related risks." S-K Subpart 1500 defines climate-related risks as "actual or potential negative impacts of climate-related conditions and events on registrants' business, results of operations, or financial condition," which fall into two categories:

- **Physical risks** are related to the physical impacts of climate-related conditions and consist of either one of the following:
  - Acute risks that are event-driven and short-term (for example, hurricanes, floods, or tornadoes)
  - Chronic risks, which are long-term events (such as rising temperatures, rising sea levels, droughts, and increased wildfires)
- **Transition risks** refer to the negative impacts, either actual or potential, on registrants' business, results of operations, or financial condition attributable to regulatory, technological, and market changes to address the mitigation of, or adaptation to, climate-related risks. Examples of transition risks include the loss of significant customers due to shifting consumer preferences for sustainable products or services, increased operating costs associated with climate-related regulations, competitive pressures associated with the adoption of new technologies, and the devaluation of assets.

Additionally, S-K Subpart 1500 defines several terms used throughout the Subpart, some of which are discussed below.

Understanding the qualitative disclosure requirements of Regulation S-K

Similar to the TCFD recommendations, the SEC's Final Rule is structured around the governance, strategy, risk management, and metrics and targets concerning climate-related risks. The following sections summarize the requirements of Subpart 1500, including the qualitative discussion around material climate-related risks.

S-K Item 1501, Governance

The governance disclosure requirements focus on the board of directors' oversight of climate-related risks as well as on management's role in assessing and managing them, as summarized in the following table.

Topic	Disclosures
Board of directors' oversight	Describe the board of directors' oversight of climate-related risks, including (S-K Item 1501(a)): • Any board committee or subcommittee responsible for the oversight of climate-related risk • How members of the board committee or subcommittee are informed of climate-related risks • How the board of directors oversee progress against climate-related targets or goals or transition plans, if applicable
Management's role	Describe management's role in assessing and managing registrants' material climate-related risks, including (S-K Item 1501(b)): • Whether and which management positions or committees are responsible for assessing and managing climate-related risks and details about their relevant expertise (S-K Item 1501(b)(1)) • How such positions or committees assess and manage climate-related risks (S-K Item 1501(b)(2)) • Whether such positions or committees report information regarding material climate-related risks to the board of directors or a committee or subcommittee of the board of directors (S-K Item 1501(b)(3))

Grant Thornton insight: Establishing governance

The new disclosure requirements under S-K Subpart 1500 do not require the board of directors or management to obtain climate-related expertise. Rather, they are aimed at providing investors with information to understand registrants' existing practices in place that govern and manage climate-related risks. It is expected that many registrants will consider the significance of climate-related risks to their business when assessing the need for additional expertise or climate risk-related activities.

Where physical or transition risks are significant, investors and other stakeholders may expect a robust response from registrants.

S-K Item 1502, Strategy

When a climate-related risk has materially impacted or is reasonably likely to have a material impact on the strategy of the business, S-K Item 1502 requires the disclosures outlined in the following table.

Topic	Disclosures
Climate-related risks that have a material impact or are reasonably likely to have a material impact on registrants' strategy, results of operations, and financial condition	Describe whether the risks are reasonably likely to manifest in either (S-K Item 1502(a)): • The short-term (for example, the next 12 months); or • The long-term (for example, beyond the next 12 months). Describe whether the risks are physical risks or transition risks, the nature of the risk, and the extent of registrants' exposure to the risk (S-K Item 1502(a)): • Physical risks (S-K Item 1502(a)(1)): – Categorize as acute or chronic, and disclose the geographic location and nature of the related properties, processes, or operations • Transition risks (S-K Item 1502(a)(2)): – Nature of the risk (for example, whether it relates to regulatory, technological, market, liability, reputational, or other transition-related factors); and – How those factors impact the registrant • Registrants with significant operations in a jurisdiction that has made a GHG emission reduction commitment should consider whether they are presented with a material transition risk (S-K Item 1502(a)(2))
Actual and potential material impacts of any climate-related risks identified as material to registrants' strategy, business model, and outlook	Describe the material impacts of any climate-related risks identified above and their impacts on areas of the business, such as the following (S-K Item 1502(b)): • Business operations (including location and type) • Products or services • Supply chain and contract counterparties (to the extent known or reasonably available)

Topic	Disclosures
	• Mitigation or adaptation activities, including any newly adopted technologies or processes • Research and development expenditures
Whether and how those impacts are considered as a part the business strategy, financial planning, and capital allocation	Discuss: • Whether those material impacts of the climate-related risks have been integrated into registrants' business model or strategy, including whether and how registrants use their resources to mitigate climate-related risks (S-K Item 1502(c)(1)) • How any of the targets or transition plans used by registrants to manage material transition risk relate to their business model or strategy (S-K Item 1502(c)(2))
Whether and how the climate-related risks have materially impacted or are reasonably likely to materially impact registrants' business, results of operations, or financial condition	Discuss: • How material climate-related risks have impacted (or are reasonably likely to impact) the business, operating results, or financial condition (S-K Item 1502(d)(1)) • The material expenditures (quantitative and qualitative) incurred and the material impacts on financial estimates and assumptions that, in management's assessment, directly result from activities to mitigate or adapt to the material climate-related risks (S-K Item 1502(d)(2))
Transition plan(s), if any, to manage a material transition risk	Describe: • A description of the transition plan(s) (S-K Item 1502(e)(1)) • An update within the annual report each fiscal year describing any actions taken during the year under the transition plan, including the actions' impact on registrants' business, results of operations, or financial condition (S-K Item 1502(e)(1)) • A quantitative and qualitative disclosure of material expenditures incurred and material impacts on financial estimates and assumptions as a direct result of the transition plan (S-K Item 1502(e)(2))
Results of performed scenario analysis (if applicable)	If performing a scenario analysis, registrants who determine that a climate-related risk is reasonably likely to have a material impact on their business, operating results, or financial condition, describe (S-K Item 1502(f)): • Each scenario, including a brief description of the parameters, assumptions, and analytical choices used

Topic	Disclosures
	• Any expected material impacts (including financial impacts) under each scenario
Internal carbon pricing (if applicable and material)	If registrants use an internal carbon price that is material to the evaluation and management of climate-related risk, disclose (in units of registrants' reporting currency) (S-K Item 1502(g)(1)): • Price per metric ton of CO_2e (S-K Item 1502(g)(1)(i)); and • Total price, including how the price is estimated to change over the time periods referenced in the discussion of short-term and long-term climate risks (S-K Item 1502(g)(1)(ii)). Registrants using multiple internal carbon prices to evaluate and manage a material climate-related risk must make the above-listed disclosures for each price used and disclose their reasons for using different prices (S-K Item 1502(g)(2)) If the scope of entities and operations involved in the use of internal carbon price(s) is materially different from the organizational boundaries used to report GHG emissions, registrants must briefly describe how they are different (S-K Item 1502(g)(3))

S-K Item 1503, Risk management

S-K Item 1503(a) requires the disclosure of any processes used by registrants to identify, assess, and manage material climate-related risks. Registrants are required to describe how they:

- Identify whether they have incurred or are reasonably likely to incur a material physical or transition risk
- Decide whether to mitigate, accept, or adapt to the particular risk
- Prioritize whether to address the climate-related risk

If they are managing the material climate-related risk, registrants must disclose whether and how they incorporate any of the above-listed considerations into their overall risk management system or process in accordance with S-K Item 1503(b).

S-K Item 1504, Targets and goals

Registrants must disclose the information summarized in the following table about their climate-related targets or goals in accordance with S-K Item 1504(a).

Topic	Disclosures
Climate-related targets or goals	Disclose: • Climate-related target or goal if such target or goal has materially affected or is reasonably likely to materially affect registrants' business, results of operations, or financial condition (S-K Item 1504(a)) • Registrants may disclose this as a part of their response to S-K Items 1502 or 1503
Understanding the material impact or reasonably likely material impact of target or goal	The description of climate-related targets or goals must include (at a minimum) the following items: • The related scope of activities (S-K Item 1504(b)(1)) • The unit of measurement (S-K Item 1504(b)(2)) • The time horizon for the target's achievement and whether it is based on any climate-related treaties, laws, regulations, policies, or organizations (S-K Item 1504(b)(3)) • The baseline time period used to track progress (if established) (S-K Item 1504(b)(4)) • A qualitative description of how the targets or goals will be met (S-K Item 1504(b)(5))
How progress was made toward the target or goal during the latest fiscal year	Registrants must update this disclosure each fiscal year by describing their progress made toward the target or goal and the actions taken during the year to achieve their target or goal, including (S-K Item 1504(c)): • Any material impacts to the business, operating results, or financial condition resulting from the pursuit of the target or goal (S-K Item 1504(c)(1)) • The amount and a description of any material expenditures and material impacts on financial estimates and assumptions directly resulting from the target or goal, including those from actions taken to make progress toward the target or goal (S-K Item 1504(c)(2))
Use of carbon offsets or Renewable Energy Credits (RECs) to make progress toward targets and goals	To the extent that carbon offsets or RECs are a material component of any plans to achieve material climate-related targets and goals, registrants must separately disclose (S-K Item 1504(d)): • The amount of carbon avoidance, reduction, or removal represented by the carbon offsets or the amount of generated renewable energy represented by the RECs • The location and a description of the projects underlying the carbon offsets or RECs

Topic	Disclosures
	• Any registries or other authentication of the offsets or RECs • The cost of the offsets or RECs If desired, registrants may include the discussion of targets and goals within its strategy or risk-management-related disclosures

Grant Thornton insight: Understanding targets and goals

Targets serve as markers for companies to measure progress toward achieving their overall climate-related goals, which in turn help investors to understand registrants' transition risk strategy and management of climate-related risk. Targets and goals also may influence registrants' materiality determination for GHG emission disclosures. For example, a company may set a target to reduce its GHG emissions by 50 percent by 2030 and to achieve net-zero by 2050. As discussed in the Final Rule, such targets and goals are not limited to GHG emissions, however, and may include energy use, water use, conservation or restoration, and regulatory requirements, among other considerations.

S-K Item 1505, GHG emissions metrics

S-K Item 1505 requires LAFs and AFs to report their material Scope 1 and material Scope 2 GHG emissions for the most recent fiscal year and, to the extent emissions were previously required in a Commission filing, for the historical period(s) included in the annual financial statements. This requirement starts for fiscal years beginning in 2026 for LAFs and for fiscal years beginning in 2028 for AFs.

Grant Thornton insight: GHG emissions background

GHGs are emitted from several anthropogenic sources, including (but not limited to) the burning of fossil fuels, agriculture, land-use change, waste management and treatment activities, and various industrial processes. GHGs are emitted from both natural and human activities and, once released, trap heat in the atmosphere. When a surplus of GHGs is released into the atmosphere, temperatures rise, resulting in global warming. While there are seven GHGs that the SEC rule focuses on, carbon dioxide (CO_2) is the most prevalent GHG in the atmosphere by a wide margin. As a result, a company's quantified GHG emissions are often presented in carbon dioxide equivalents (CO_2e), which is the accepted "common currency" of GHG reporting.

For more information on GHGs and their impact on the environment, see the EPA's page on Greenhouse Gases.

S-K Item 1505 requires LAFs and AFs to disclose certain GHG emissions based on concepts established in the GHG Protocol, a commonly used, comprehensive set of standards and guidance for the

measurement and management of GHG emissions. In alignment with the GHG Protocol, the new disclosures focus on the measurement and calculation of seven greenhouse gases: carbon dioxide, methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF_6), and nitrogen trifluoride (NF_3).

S-K Item 1500 defines Scopes 1 and 2 emissions as follows:

- **Scope 1 (direct emissions):** GHG emissions from operations that are owned or controlled by registrants
  - Examples include emissions from fuel combustion in company-owned or -controlled furnaces or in company-owned vehicles.
- **Scope 2 (indirect emissions):** GHG emissions from purchased or acquired electricity, steam, heat, or cooling consumed by operations owned or controlled by registrants
  - Examples include emissions from the generation of electricity, steam, heat, and cooling purchased by registrants.

Scope 1 and Scope 2 GHG emission reporting requirements

S-K Item 1505 requires LAFs and AFs to disclose Scope 1 and Scope 2 GHG emissions if such emissions are material.

Grant Thornton insight: Material GHG emissions

The Final Rule specifically mentions that Scope 1 and Scope 2 emissions could be material if they allow investors to understand whether the emissions are significant enough to subject registrants to transition risks that will, or are reasonably likely to, materially impact registrants' business, operations, or financial condition in the short- or long-term. Emissions may also be material if the disclosure would help the investor understand whether registrants have made progress toward a target, goal, or transition plan that has been disclosed.

Similar to the materiality determination for climate-related risks, registrants should consider consulting with legal counsel when making materiality determinations. At a high level, registrants need to consider all areas of the business to understand where sources of GHG emissions exist. Then, registrants should gather information that is reasonably available to determine which relevant sources of GHG emissions (if any) are quantitatively or qualitatively material. After efforts in the initial reporting year, ongoing assessments could focus on identifying significant changes in the business that could result in new sources of material GHG emissions.

The GHG Protocol discusses that when preparing to calculate and report GHG emissions, registrants should first establish an approach for consolidating their GHG emissions by defining the "organizational boundary," which is akin to the concept of identifying the reporting entity when preparing the financial statements. When defining organizational boundaries, registrants may utilize the GHG Protocol, which provides several options for a reporting entity to set organizational boundaries for the entities, operations, assets, and other holdings included in emissions reporting, including the operational control approach, the financial control approach, and the equity share approach. Registrants may choose between these approaches when determining their organizational boundaries, but should provide a brief explanation if

the boundaries materially differ from the scope of entities and operations included in the consolidated financial statements.

Within the organizational boundary, operational boundaries determine the direct and indirect emissions associated with the business operations owned or controlled by a registrant. Defining operational boundaries allows registrants to classify their GHG emissions as Scope 1, 2, or 3. Once they've defined the operational boundaries, registrants may progress in gathering data to calculate and report their Scopes 1 and 2 GHG emissions.

Grant Thornton insight: Exclusion of Scope 3 emissions

Notably, the Final Rule did not adopt the proposed requirement to report Scope 3 GHG emissions, which result from the registrants' value chain. However, registrants are still required to disclose material climate risks, many of which are related to value chain activities.

Despite the absence of Scope 3 emissions within the Final Rule, the European Union's Corporate Sustainability Reporting Directive (CSRD) and California's Senate Bill 253 both require Scope 3 reporting. These regulations impact public and private companies and are expected to impact many SEC registrants, requiring them to calculate, report, and obtain assurance over their GHG emissions, including Scope 3 emissions.

For more information on the above-mentioned regulations, see Grant Thornton's thought leadership publications below:

- Snapshot 2023-11, "California climate reporting bills"
- Snapshot 2022-19, "Impact of CSRD on non-EU entities"

The following table summarizes both qualitative and quantitative disclosures required by S-K Subpart 1500 if GHG emissions are deemed to be material.

GHG emissions reporting requirements (if material)	
Topic	**Disclosures**
Quantitative disclosures	For Scope 1 and Scope 2 GHG emissions (S-K Item 1505(a)(1)): • Scopes 1 and 2 are reported separately, each in aggregate in terms of carbon dioxide equivalents (CO2e) (S-K Item 1505(a)(2)(i)) • If any of the seven constituent GHGs are individually deemed material, those gases should also be disclosed separately (S-K Item 1505(a)(2)(i)) • GHGs are reported in gross terms, excluding the impact of any purchased or generated offsets (S-K Item 1505(a)(2)(ii))

GHG emissions reporting requirements (if material)	
Topic	**Disclosures**
Qualitative disclosures	• A description of the methodology, significant inputs, and significant assumptions used in the GHG emissions calculation (S-K Item 1505(b)(1)) • A description of the organizational boundaries used in the GHG emissions calculation, including a brief explanation of differences between the scope of entities used for financial reporting versus GHG reporting, if material (S-K Item 1505(b)(1)(i)) • A brief discussion of the operational boundaries used, including the approach to categorize emissions and emission sources (S-K Item 1505(b)(1)(ii)) • A brief disclosure of the protocol or standard (S-K Item 1505(b)(1)(iii)): – Identification of any calculation tools used – The type and source of emissions factors used • Description of the underlying assumptions and reasons for estimates used in GHG emissions reporting (S-K Item 1505(b)(2))

GHG disclosure timing

For LAFs and AFs that are required to report GHG emissions, S-K Item 1505(c)(1) allows filers to report emissions disclosures on a delayed basis as follows:

- For domestic registrants, GHG emissions may be included in (1) Form 10-K, (2) Form 10-Q for the second fiscal quarter following the year to which the emissions disclosure relates and incorporated by reference into Form 10-K, or (3) an amended Form 10-K filed by the due date of the second quarter Form 10-Q.
- For foreign private issuers (FPIs) that do not file on domestic forms, GHG emissions should be disclosed in their annual reports on Form 20-F or in an amendment to their annual reports on Form 20-F that is due no later than 225 days following the year to which the GHG emissions disclosure relates.
- For entities filing a registration statement, GHG emissions should be reported as of the most recently completed fiscal year that is at least 225 days prior to the date when the registration statement takes effect.

See the "Compliance dates" section of this document for GHG emissions reporting compliance dates as well as disclosure relief for NAFs, SRCs, and EGCs.

S-K Item 1506, Attestation of Scope 1 and Scope 2 emissions disclosures

S-K Item 1506 requires independent third-party limited assurance over Scope 1 and Scope 2 GHG emissions disclosed by LAFs for fiscal years beginning in 2029 and by AFs for fiscal years beginning in

2031. LAFs are then required to obtain reasonable assurance over Scopes 1 and 2 GHG emissions for fiscal years beginning in 2033.

Once attestation requirements take effect, LAFs and AFs are required to include an attestation report covering their Scopes 1 and 2 GHG emissions disclosures. The attestation report must follow standards that are publicly available at no cost or that are widely used and have been established by a body or group that has followed due process procedures, including broadly distributing the attestation framework for public comment (S-K Item 1506(a)(2)). The Final Rule explicitly allows for the use of AICPA, PCAOB, IAASB, and ISO attestation standards.

In some instances, registrants may voluntarily obtain assurance over GHG emissions that are reported outside their Commission filings. For example, an AF that is not yet required to obtain assurance over its disclosed emissions may nonetheless obtain limited assurance over the GHG emissions reported in its sustainability report published on its website. In such cases, registrants must disclose certain information in their filing about the voluntary assurance.

Information required by S-K Item 1506(e) includes the following:

- The name of the assurance provider
- A description of the assurance standards used
- A description of the level of assurance (for example, limited assurance) and the scope of assurance provided
- A brief description of the results of assurance
- Whether the service provider has any material business relationships or has previously provided material professional services to the registrant
- Whether the assurance provider is subject to oversight inspection programs, the name(s) of such program(s), and whether the assurance services over GHG emissions are within the scope of the oversight program

Grant Thornton insight: Attestation provider requirements

S-K Item 1506 includes requirements that attestation providers must meet to prepare and sign a GHG attestation report. The provider must be an expert in GHG emissions with significant experience in reporting, measuring, analyzing, or providing assurance over GHG emissions. Attestation providers also must follow any applicable legal or regulatory requirements and professional standards, including maintaining independence from registrants and their affiliates.

With this in mind, registrants may frequently turn to their existing financial statement auditors for their assurance needs over reported GHG emissions. Financial statement auditors offer synergies for GHG attestation due to their understanding of the business, the use of established and accepted professional standards, and existing systems and controls to maintain independence from the registrant.

S-K Item 1507, Safe harbor for certain climate-related disclosures

Certain climate-related disclosures under S-K Item 1507 include forward-looking statements that are protected under the Private Securities Litigation Reform Act of 1995 (PSLRA) safe harbor.

Because the disclosure items pertaining to transition plans, scenario analysis, internal carbon pricing, and targets and goals are likely to involve a complex mixture of estimates and assumptions, some of which may be based on a combination of facts and projections, much of the information required by Subpart 1500 is considered to be forward-looking statements for purposes of the statutory PSLRA safe harbor.

However, the PSLRA safe harbor does not apply to statements that consist solely of historical facts, since these statements do not involve estimates, judgments, or predictions that would require additional protections. Registrants should work alongside legal counsel to develop disclosures that comply with the safe harbor requirements.

Regulation S-X

The Final Rule adds Article 14 to Regulation S-X, which requires registrants to disclose, in a footnote to the audited financial statements, capitalized costs, expenditures expensed, charges, and losses incurred as a result of severe weather events and other natural conditions. Registrants are also required to disclose information for capitalized costs, expenditures expensed, and losses related to carbon offsets and RECs. Further, registrants are required to disclose whether, and if so, how their estimates and assumptions used to produce the consolidated financial statements have been materially impacted by exposure to risks and uncertainties associated with severe weather events and other natural conditions, or by any climate-related targets or transition plans disclosed by the registrant.

The new financial statement disclosure requirements in S-X Article 14 apply to all domestic and foreign SEC registrants, except for asset-backed issuers.[1]

Definitions, basis of calculation, and periods to be disclosed

The definitions included in S-K Subpart 1500 are also used in S-X Article 14, except as otherwise indicated within Article 14. Severe weather events or other natural conditions are not explicitly defined; however, S-X Article14-02(c) offers the following as non-exhaustive examples of severe weather events or natural conditions: hurricanes, tornadoes, flooding, drought, wildfires, extreme temperatures, and rising sea levels.

Registrants should apply the same entity scope and accounting principles used to prepare the consolidated financial statements to any calculations or disclosures made under S-X Article 14. The new disclosures are required for registrants' most recently completed fiscal year and, to the extent previously disclosed or required to be disclosed in an SEC filing, for the historical fiscal year(s) for which audited consolidated financial statements are included in the filing.

[1] The Final Rule specifies that both S-X Article 14 and S-K Subpart 1500 do not apply to a private company that is a party to a business combination transaction, as defined by Rule 165(f) of the Securities Act of 1933, involving a securities offering registered on Forms S-4 or F-4, or for which a proxy statement or an information statement is required to be filed. It should be noted, however, that Article 14 and Subpart 1500 do apply to registrants or companies being acquired that are subject to reporting requirements under the Securities Exchange Act of 1934.

Contextual information

For financial statement effects that trigger disclosure, the following contextual information, as required by S-X Article 14-02(a), must be disclosed in the footnotes to the audited financial statements:

- How the financial statement effect was derived
- Significant inputs, assumptions, and judgments used to determine the financial statement effect
- Additional information needed to facilitate an understanding of the financial statement effect
- Policy decisions made to calculate disclosed amounts, if applicable

Materiality and disclosure thresholds

S-X Article 14-02(b) sets the following thresholds for disclosures of severe weather events and other information.

Topic	Disclosure required if:
Expenditures expensed as incurred and losses (excluding recoveries) resulting from severe weather events and other natural conditions (S-X 14-02(c))	• Aggregate amount of the expenditures expensed as incurred and losses equals or exceeds 1 percent of the absolute value of pretax net income or loss for the relevant fiscal year[1]
Capitalized costs and charges resulting from severe weather events and other natural conditions (S-X 14-02(d))	• Aggregate amount of the absolute value of capitalized costs and charges equals or exceeds one percent of the absolute value of stockholders' equity or deficit at the end of the relevant fiscal year[2]
Carbon offsets and RECs (S-X 14-02(e))	• The instruments are a material[3] component of plans to achieve disclosed climate-related targets or goals

[1] Disclosure is not required if the aggregate amount is less than $100,000 for the relevant fiscal year.

[2] Disclosure is not required if the aggregate amount of the absolute value is less than $500,000 for the relevant fiscal year.

[3] Refer to S-K Item 1504 for a discussion about materiality related to targets and goals, as well as whether the use of carbon offsets and RECs comprises a material component of the plans to achieve the related target or goal.

Capitalized costs, expenditures expensed, charges, and losses incurred resulting from severe weather events and other natural conditions

S-X Rule 14-02(c) requires disclosure of the aggregate amount of expenditures expensed and losses incurred (excluding recoveries) during the fiscal year as a result of severe weather events and other natural conditions. Registrants are required to describe where the expenditures or losses are presented in the income statement.

S-X Rule 14-02(d) requires registrants to disclose the aggregate amount of capitalized costs and charges (excluding recoveries) incurred during the fiscal year as a result of severe weather events and other natural conditions. Registrants are required to identify the balance-sheet line items where such capitalized costs and charges are presented.

S-X Rules 14-02(c) and 14-02(d) provide the following examples of activities involving capitalized costs, expenditures expensed, charges, and losses incurred as a result of severe weather events and other natural conditions that registrants may be required to disclose, including amounts associated with

- Restoring operations
- Relocating assets or operations affected by the event or other natural condition
- Retiring or repairing the affected assets or recognizing impairment loss on the affected assets
- Otherwise responding to the effect that severe weather events and other natural conditions exerted on business operations

In most cases, the capitalized costs, expenditures expensed, charges, and losses incurred will either be related to, or will be a result of, the material climate-related risks identified in S-K Item 1502.

Recoveries

As part of the contextual information to be disclosed within the footnotes, S-X Rule 14-02(f) requires registrants to (1) separately state the aggregate amount of any recoveries recognized during the current fiscal year related to the amounts disclosed as a result of severe weather events or natural conditions, and (2) identify where the recoveries are presented in the income statement and on the balance sheet.

Attribution

To the extent that the severe weather event or natural condition is a significant contributing factor to the capitalized cost, expensed expenditure, charges, or losses incurred or recovered, S-X Rule 14-02(g) requires the entire amount recorded to be attributed to the event and disclosed in the footnotes. For example, if a registrant's warehouse was damaged by a hurricane and the registrant incurs costs to repair the damage, the hurricane would be a significant contributing factor to those costs. As a result, the entire cost incurred (if significant enough to trigger the relevant disclosure threshold) would be attributed to the severe weather event and disclosed in the footnotes to the audited financial statements.

The following example of how to present disclosures was taken from SEC Final Rule Release No. 33-11275, "The Enhancement and Standardization of Climate-Related Disclosures for Investors," pages 492 – 496.

Example – Presentation of disclosure
A registrant (1) capitalized $1,200,000 of expenditures related to Severe Weather Event A; (2) incurred an impairment charge of $750,000 in the income statement to write-off $750,000 of inventory from the balance sheet related to Natural Condition B; (3) capitalized $1,000,000 of expenditures to replace the inventory written off related to Natural Condition B; (4) expensed $2,000,000 of expenditures related to Severe Weather Event C; and (5) received $400,000 in insurance recoveries related to Severe Weather Event A.

The registrant determined that Severe Weather Events A and C and Natural Condition B were significant contributing factors in incurring the capitalized costs, expenditures, charges, losses, and recoveries.

In addition, the registrant used carbon offsets and RECs as a material component of its plan to achieve a disclosed climate-related target or goal, and it capitalized $1,000,000 and expensed $3,000,000 of carbon offsets or RECs during the period. The registrant had a beginning balance of capitalized carbon offsets or RECs of $2,500,000 and ended the year with $500,000 in capitalized carbon offsets or RECs remaining on its balance sheet.

The registrant would perform the following analysis to determine whether disclosure is necessary for expenditure metrics:

Expenditure category	Current FY balances	Severe weather event A	Natural condition B	Severe weather event C	Percentage impact
Balance Sheet (capitalized costs and charges)	(Stockholder's Equity) $150,000,000	$1,200,000	$1,750,000[1]	---	1.97%
Income Statement (expenditures expensed and losses)	(Income before taxes) $75,000,000	---	$750,000	$2,000,000	3.67%

[1] $1,750,000 relates to the aggregate impact of the ($750,000) write-off of inventory and the capitalized $1,000,000 of expenditures to replace the written off inventory.

The aggregate amount of the absolute value of capitalized costs and charges on the balance sheet ($2,950,000) exceeded one percent of stockholders' equity, and therefore disclosure would be required for these costs and charges.

The aggregate amount of expenditures expensed as incurred and losses in the income statement ($2,750,000) exceeded one percent of income or loss before income tax expense or benefit, and therefore disclosure would be required for the expenses and loss.

For example, Company A may make the following disclosure[2]:

Note XX. Financial statement effects related to severe weather events and other natural conditions

	Balance Sheet		Income Statement		
	Year ended Dec. 31,		Year ended Dec. 31,		
	20X2	20X3	20X1	20X2	20X3
Capitalized Costs and Charges:					
Inventory	---	$ 250,000[3]			

PPE	---	$1,200,000			
Expenditures Expensed as Incurred & Losses:					
General & Administrative			---	---	$ (2,000,000)
Other Income / Loss			---	---	$ (750,000)

[2] The registrant would also disclose required contextual information, including a description of how each specified financial statement effect was derived, including a description of significant inputs and assumptions used, significant judgments made, other information that is important to understand the financial statement effect and, if applicable, policy decisions made by the registrant to calculate the specified disclosures. This contextual information would also include the aggregate amount of any recoveries recognized during the fiscal year as a result of severe weather events (the ones that meet the disclosure threshold listed above), including where the $400,000 of insurance recoveries are presented in the financial statements.

[3] $250,000 represents the debit balance of $1,000,000 to repurchase the inventory, less the $750,000 credit balance to write off the inventory.

Along with the required contextual information describing the registrant's accounting policies for its carbon offsets and RECs, the registrant would also disclose:

Carbon Offsets and RECs	
Carbon Offsets and RECs at Jan. 1, 20X3	$ 2,500,000
Capitalized Carbon Offsets and RECs	$ 1,000,000
Expensed Carbon Offsets and RECs	$(3,000,000)
Carbon Offsets and RECs at Dec. 31, 20X3	$ 500,000

Carbon offsets and RECs are presented in the Intangible Assets line item on the balance sheet and expensed in the General and Administrative line item on the income statement.[4]

[4]There is diversity in practice in accounting for carbon offsets and RECs. In this example, the entity capitalizes all of its costs of carbon offsets and RECs and presents these amounts within the intangible assets line item. We are providing this example for illustrative purposes only and this is not meant to indicate a preferred method of accounting or presentation. Registrants should consider their specific facts and circumstances when determining the appropriate accounting treatment and disclose their accounting policy in accordance with S-X Rule 14-02(e)(2).

Carbon offsets and RECs

The Final Rule introduces requirements in S-X Rule 14-02(e) to provide details about the use of carbon offsets and RECs that played a material role in plans to achieve a disclosed climate-related target or goal.

Topic	Disclosure
Quantitative disclosures	For carbon offsets and RECs for the relevant fiscal year, disclose: • The aggregate amount expensed • The aggregate amounts capitalized • The aggregate amount of losses incurred on capitalized costs for the relevant fiscal year • The beginning and ending balances of the capitalized carbon offsets and RECs for the fiscal year
Qualitative disclosures	• State the related accounting policy for carbon offsets and RECs • Describe where the above quantitative disclosure(s) is (are) located on the balance sheet and/or income statement

Financial estimates and assumptions materially impacted by severe weather events and other natural conditions or disclosed targets or transition plans

Under S-X Rule 14-02(h), registrants must disclose whether estimates and assumptions used to produce the consolidated financial statements were materially affected by risks, uncertainties, or known impacts from severe weather or other natural conditions, as well as from any disclosed climate-related targets and transition plans. If so, registrants must provide a qualitative description of how the development of such estimates and assumptions were affected by such events, conditions, targets, or transition plans.

Grant Thornton insight: Estimates and assumptions

While the Final Rule did not adopt certain proposed financial metrics, such as those related to transition activities, the SEC adopting release does reference the FASB Conceptual Framework’s concept of “perfectly faithful representation” as a reminder that registrants may consider disaggregation to provide complete information. As such, additional disaggregation and disclosure of certain material expenditures in the footnotes to the financial statements, such as expenditures related to transition costs, may help registrants to meet the financial reporting objectives of the Conceptual Framework.

For example, an energy company looking to reduce its direct Scope 1 GHG emissions may consider whether the disaggregation of cash outflows to purchase or improve its fixed assets to meet its transition plans, targets, or goals on the statement of cash flows (or in a related footnote) is necessary for a financial statement user to understand the phenomenon represented in the underlying financial statements.

Compliance dates

The Final Rule includes phased-in compliance dates. The table below, reproduced from the SEC's Fact Sheet, provides a summary of the timeline. Please note that FYB refers to fiscal years beginning in the listed calendar year.

Disclosure compliance dates					
Filing status	**Disclosure and financial statement effects audit**		**GHG emissions and assurance on Scopes 1 & 2 emissions disclosures**		
	All disclosures, other than as noted in this table	**Financial impacts related to climate-related risk mitigation as well as targets and goals[1]**	**Report Scopes 1 and 2 GHG emissions**	**Limited assurance**	**Reasonable assurance**
LAFs	FYB 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033
AFs (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A
SRCs, EGCs, and NAFs	FYB 2027	FYB 2028	N/A	N/A	N/A

[1]Disclosure requirements specifically contained in S-K Items 1502(d)(2), 1502(e)(2), and 1504(c)(2) require registrants to provide quantitative and qualitative disclosures on material expenditures and material impacts to the financial estimates and assumptions.

Grant Thornton insight: What to do now

After gaining an understanding of the Final Rule's new reporting requirements, registrants will need to focus on the following challenges and practical considerations facing them as they prepare to adopt the new requirements and enhance their climate-related disclosures for investors:

- **Understand how climate-related risks are governed and managed:** Registrants will need to consider which individuals or groups in the organization are best equipped to oversee, prioritize, and manage climate-related risks.
- **Identify material climate-related risks:** Registrants need to identify where physical and transition risks exist across all areas of the business in determining relevant material climate-related risks.
- **Understand financial impacts:** The disclosures within the footnotes to the audited financial statements may require significant additional effort for registrants. Capitalized costs, expenditures, charges, and losses incurred related to severe weather events and other natural conditions may need to be disclosed as soon as fiscal year beginning in 2025. Integrating these disclosures into

existing ICFR frameworks may prove to be time consuming for registrants. Within their filings, registrants will need to certify that both ICFR and disclosure controls are procedures are effective.

- **Prepare for external assurance over Regulation S-X disclosures:** The controls over the calculations and disclosures included in the footnotes will be subject to audit in the first year of reporting. Registrants should perform an ICFR gap assessment to evaluate the design effectiveness of relevant internal controls and should assess the sufficiency of the audit evidence available to support these disclosures.
- **Quantify and report material GHG emissions:** Registrants will need to perform an analysis to understand whether their Scopes 1 and 2 GHG emissions are material and require disclosure. If these emissions are material, registrants will need to develop or refine their GHG inventory, including evaluating the completeness and accuracy of reported emissions.
- **Prepare for external assurance over GHG disclosures:** LAFs and AFs will need to obtain external assurance over their reported GHG emissions. Even with a phased-in period between initial reporting and limited assurance, the effort needed to achieve assurance will be significant. Well before assurance is phased in, registrants should assess the sufficiency of documentation over their GHG emission calculations, including any estimates used to fill data gaps.

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