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What to Do Next

Preparing for the SEC Rule on Climate-Related Financial Disclosures

Over the past two decades, climate risk has been increasingly identified as a substantial threat to financial market stability and long-term value. Investors representing more than **$130 trillion have been making increasingly forceful requests** for Environmental, Social, and Governance (ESG) information, including climate data as a risk assessment tool, giving rise to a burgeoning set of beyond-compliance standards and frameworks, and fragmented data disclosures from those who access climate markets.

In concurrence with the view that more comprehensive and standardized climate data is valuable to overall financial stability, the United States Securities and Exchange Commission (SEC) proposed disclosure rules that would require enhanced disclosures of climate risk information from registered entities. These proposed rules represent the culmination of a decade's worth of analysis since the SEC first promulgated voluntary climate disclosure guidance in 2010. The proposed rule passed by a 3 to 1 vote on March 21, 2022 and the public comment period on the proposed ruling closed on June 17, 2022. In terms of timeline, the SEC is optimistic that the **disclosure rules will be adopted** with an effective date of December 2022. A summary of the current proposed rulemaking, including what is proposed, the methodologies mentioned, and the timeline for phasing in requirements, can be found in an April 8 Guidehouse **blog post**.

The Impact of the SEC Ruling on Investor-Owned Utilities

The SEC ruling will change the landscape of climate-related disclosures for all public companies, but investor-owned utilities may see some of the greatest impacts, because your business is built on selling a carbon-based product. Climate risk has a central relationship to a utility's business strategy.

In addition, utilities have been disclosing portions of their greenhouse gas (GHG) emissions footprint for decades to various reporting agencies, such as the US Environmental Protection Agency. With a historical record of GHG emissions disclosures, investor-owned utilities will need to be particularly careful as they construct their governance process to meet the final SEC requirements on climate-related risks, that their disclosures align with their published historical record.

What You Can Do to Prepare

Now that the public comment period has closed, the SEC is expected to issue its final rules and its enforcement date. Although the timeline for a final rulemaking remains uncertain, the SEC's disclosure timelines assume a December 2022 date for the final rule to take effect.

As a leader, there are things that you can start doing to ensure that your company is prepared to meet the new SEC requirements.

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Literacy

Ensure that relevant personnel throughout the organization understand the proposed rules and implications. Executives and senior management may not have previous experience confronting these topics and will require varying levels of education to engage in informed decision-making. Comprehension of the proposed rulemaking's requirements as they apply to a particular organization, based on the organization's size and business model, is a key first step.

Governance and Integration

Start establishing appropriate governance and internal controls to ensure those responsible for decision-making regarding climate risks have the information they need, and that climate risk is formally integrated within the company's core risk management processes via COSO or other relevant frameworks.

Data

Identify and being collecting the data required to meet potential disclosure obligations, including data required to account for Scope 1 and 2 GHG emissions, and scope 3 if it is material to your business. Note that for most investor-owned utilities, scope 3 will be material and will need to be disclosed. Additionally, while many investor-owned utilities disclose some portion of GHG emissions today, the SEC ruling will require climate-related disclosures to align with a company's fiscal disclosures, including alignment with the fiscal year and a financial control approach, which may mean modifications to current data collection.

Systems and Processes

Begin developing the necessary systems and processes to ensure accuracy and precision required by the proposed disclosures. Reporting of climate-related risks will now require a degree of internal and external confidence that can only be derived from a robust reporting infrastructure similar to what companies have in place for other regulated disclosures. If you do not already have an enterprise-wide system and associated governance processes in place for tracking of GHG emissions that provides assurances over the calculations used, clarity over the data inputs and data changes, reporting aligned with disclosure requirements, and offers an executive-level dashboard so leadership can easily access updates, then you should be looking at moving toward instituting a system to do that as soon as possible.

Opportunities and Upside

Use this transition toward increased scrutiny of climate risk management to identify and drive benefits within the firm. Assessing climate impacts can provide business opportunities for new, differentiated products and services, as well as increased efficiency, improved resilience, and employee engagement.

Engagement and Preparation

Create a detailed roadmap and begin taking the steps necessary to prepare to meet the proposed requirements. This may include creating or expanding climate risk governance and a climate team, compiling a risk register of potential climate risk impacts to the business, upgrading data flows and calculations, and targeted engagement with compliance, investor relations, and regulatory affairs.

Compliance with the SEC climate-related risk disclosure may seem daunting today, but with a thorough assessment of your internal governance processes and education of key decision makers, it is possible to ensure that these disclosure requirements can be effectively managed by your organization.