VEERLESS

"The Sheet"

PRACTICAL TACTICS FOR NORTH STAR SUSTAINABILITY

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U.S. SEC RELEASES FINAL CLIMATE RULE

FIRST: THE FACTS

The U.S. Securities and Exchange Commission released final rules on climate-related information in registration statements and annual reports on March 6, 2024. A fact sheet from the SEC on this rule and its implications is available online. The SEC's rule on climate-related disclosures began with a proposal in March 2022. The rule finalized this year is meaningfully slimmed down from the initial proposal, after receiving more than 50,000 comments on the initial proposed rule.

NARRATIVE ELEMENTS

The rule details a set of narrative elements companies must include in their annual reporting including:

- Climate-related risks and their material impact on business strategy, operations and financial conditions.
- Information on a company's activities to mitigate or adapt to identified climate-related risks.
- Details on oversight from management and Boards.
- Narrative details on the company's materiality processes.
- Information regarding climate-related targets or goals, if any.

On Materiality

Unlike the EU's CSRD regulation, the U.S. SEC did not require the implementation of a double materiality process in its ruling. The rule instead relies on traditional financial materiality. Information is material if a reasonable investor would consider it in their investment decision. The SEC does not dissuade companies from taking the additional step of double (or impact) materiality, extending material topics beyond internal operations to include its influence on society and the environment.

DATA DISCLOSURE ELEMENTS

Only large accelerated filers (LAFs) and accelerated filers (AFs) (definitions linked here) are required to disclose information about Scope 1 and 2 emissions including:

- Scope 1 and 2 emissions details with limited assurance to begin disclosure and reasonable assurance following an additional transition period.

All companies will be required, on specific schedules to disclose:

- Capitalized costs, expenditures, charges and losses incurred as a result of severe weather events and other natural conditions.
- Disclosure of capitalized costs, expenditures and losses related to carbon offsets and renewable energy credits or certificates (RECs), if used as a material component of the company's targets.

IMPLEMENTATION TIMELINE

FOR LARGE ACCELERATED FILERS (LAFs) - GENERALLY COMPANIES WITH REVENUE OVER $700M

- Disclosure required for Fiscal Year Beginning in 2025 for narrative elements only
- Disclosure required for Fiscal Year Beginning in 2026 for quantitative and data disclosure
- Electronic XBRL tagging implemented by Fiscal Year Beginning in 2026
- Limited assurance completed for Fiscal Year Beginning in 2026 for Scope 1 and 2 emissions
- Limited assurance completed for all data for Fiscal Year Beginning in 2029
- Reasonable assurance completed for Fiscal Year Beginning in 2033

FOR ACCELERATED FILERS (AFs) - GENERALLY COMPANIES WITH REVENUE $70-700M

- Disclosure required for Fiscal Year Beginning in 2026 for narrative elements only
- Disclosure required for Fiscal Year Beginning in 2027 for quantitative and data disclosure
- Electronic XBRL tagging implemented by Fiscal Year Beginning in 2026
- Limited assurance completed for Fiscal Year Beginning in 2028 for Scope 1 and 2 emissions
- Limited assurance completed for Fiscal Year Beginning in 2031
- Reasonable assurance completed for Fiscal Year Beginning is not currently required at any time for AFs

FOR SMALLER REPORTING COMPANIES (SRCs), EMERGING GROWTH COMPANIES (ERCs) and NON-ACCELERATED FILERS (NAFs) - GENERALLY COMPANIES UNDER $70M IN REVENUE

- Disclosure required for Fiscal Year Beginning in 2027 for narrative elements only
- Disclosure required for Fiscal Year Beginning in 2028 for quantitative and data disclosure
- Electronic XBRL tagging implemented by Fiscal Year Beginning in 2026
- There is no requirement of assurance of any kind for SRCs, ERCs, and NAFs

Immediate Actions

Across both the SEC rule and CSRD in the EU, the name of the game in 2024 and 2025 is "readiness." Both of these important regulations provide ample time for companies to plan and execute to meet these regulations. The worst decision is to wait until the last minute to scramble to meet the regulatory requirements. A robust strategy in ESG today will ensure your organization's sophistication grows as it prepares for ongoing compliance with existing and emerging regulations. Veerless recommends:

- Begin calculating emissions now, implementing carbon accounting technology solutions to ensure long-term auditability of data.
- Begin to include ESG strategically in your company's business planning, enterprise risk management, and capital expenditure processes. First, as a lens for information and understanding. Then, as a strategic imperative across your organization.
- Understand ESG budgets will need to increase meaningfully to cope with the cost of assurance and compliance with regulations today and in the future. Strategically work to add headcount as needed and bring to the table technology and consulting partners with expertise across E, S, and G.
- Be careful of messages of doom and gloom or "the sky is falling" concerns. The SEC rule is measured and reasonable, and while it will still face challenges, the SEC has approached the rule in a way that makes compliance achievable for all.