

## **Checklist: Preparing for the SEC's New Climate Disclosure Proposal**

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The SEC's new "Climate Disclosure" Proposal isn't a final rule yet, but your corporation should be developing compliance practices now.

Here are some practical steps your corporation can start taking today:

- 1. Establish a multidisciplinary team.** Create an internal multidisciplinary team consisting of personnel from legal, accounting, finance, environmental, risk management, procurement, facilities and any other groups that will be relevant to putting your organization on track for compliance with the SEC's proposed rule. While the rule is not yet finalized, now is the time to start taking action and working toward compliance.

Establish regular meetings for this team, starting as soon as it's created. They should be spearheading your efforts. Have the team map out each distinct element of the proposed rule. Use a chart or other organizational tool to keep track of where you currently stand in relation to each element and what actions the company needs to take to prepare for compliance. This team will also need to stay updated on the status of the proposed rule and any shifting deadlines so they can adapt accordingly.

- 2. Review your disclosure controls and procedures.** How fast you need to move and whether your corporation needs to implement new processes depends to a large extent on your existing practices. If you're already doing TCFD reports and following the GHG Protocol, then you're on the right track. Leverage these existing processes and procedures to stay ahead. If you're not, then you need to have your multidisciplinary team look into these frameworks and determine if you should be using them.

Conduct a review of your current disclosure controls and procedures to give you an idea of where you are in your journey to alignment with the proposed rule. Once you have this information you can prioritize each element and start working toward those elements that require immediate attention.

- 3. Evaluate the impact of your program approach/structure on anticipated disclosure requirements.** The extent of the proposed disclosure scope could have a chilling effect on how companies choose to develop and implement their climate management programs. For instance, companies may voluntarily establish targets and goals — doing so is not mandated under the proposal. However, if a company does voluntarily establish targets and goals, those would have to be disclosed under the proposal. Similarly, whether Scope 3 emissions should be disclosed is also determined by companies individually.

Some companies may prefer to limit their climate activities/programs in order to reduce their disclosure burden and cost. Each company should make their own assessment of how to balance programs and disclosures.

- 4. Calendar deadlines.** The SEC hopes to have a final rule published by the end of 2022. Additionally, the comment period for the proposed rule ends on May 20th. While it is likely the deadline will be extended, until that happens it is prudent to treat these deadlines as if they are final.

Set internal deadlines as well, dates for when you should finish certain projects or reach certain milestones toward alignment. Put these dates on a calendar and create a Gantt chart. Estimate how long you expect each project or milestone to take and work backward from the calendared dates to build an estimated timeline. Be sure to update your Gantt chart with new deadlines or changes in your timing expectations so you'll always have an up-to-date chart showing where you stand on your progress.

- 5. Prepare your auditors and environmental staff for climate-related financial disclosure.** Consider using your internal audit group to validate climate data you're collecting at a facility level. These data are the foundation of your disclosures, so it is important that they be accurate. Your internal audit group should consult with your environmental staff to understand the climate data, its collection processes and range of data risk in order to maximize their usefulness and provide the quality data that the SEC is looking for.

Auditors have a great understanding of the auditing practices and procedures that the SEC expects, however, they don't have the technical knowledge of emissions inventories included in the proposal. On the other hand, environmental professionals do have an in-depth knowledge of emissions inventories but lack the knowledge of SEC-required auditing practices and procedures. These two groups should work closely together to fill knowledge or expertise gaps between the groups.

- 6. Determine what outside expertise is needed.** The expertise of your internal audit and environmental departments will determine what expertise gaps exist within your corporation. Bring in outside consultants to help fill these gaps. First, you'll need to determine where your corporation's blind spots are, then you'll need to carefully select consultants to use to assist in those areas. Select consultants based on your corporation's needs. You may need someone who understands the technical aspects of emissions calculations. You may need someone who understands how to put that data into the context of SEC filings. More than likely, you'll want to find a consultant who understands both, but that will be a challenge as there are few consultants/auditors that have that capability. Have your consultants meet with your interdisciplinary team to assist them in whatever capacity they require.

You'll want to start your search now for testing and assurance firms. The current capacity of firms is expanding rapidly as they acquire additional staff to help with the increased demand, but don't bank on last-minute availability. Start assessing these firms now and deciding whose services you want to use. They will be booked quickly, so it's important to get a spot while you can.

- 7. Submit your comments to the SEC.** The climate disclosure rule is not finalized yet, and the SEC needs input from issuers to make fully informed choices. Each company should evaluate sending comments directly to the SEC, as well as through applicable industry/trade associations. Determine the areas you want to focus on in your comments by assessing the impact of the proposed rule on your operations. Explain in your comment letter the challenges your corporation will face in the following areas:

- **Technical challenges and data gathering**
- **Data validation complexities**
- **Timing considerations**
- **Costs and burdens involved in compliance**
- **Disclosure of competitively sensitive information**

The deadline for comments is currently set at May 20th, so you'll need to act quickly. If you don't want to send a comment letter directly, you can always work through your trade associations or request an in-person meeting with the SEC.