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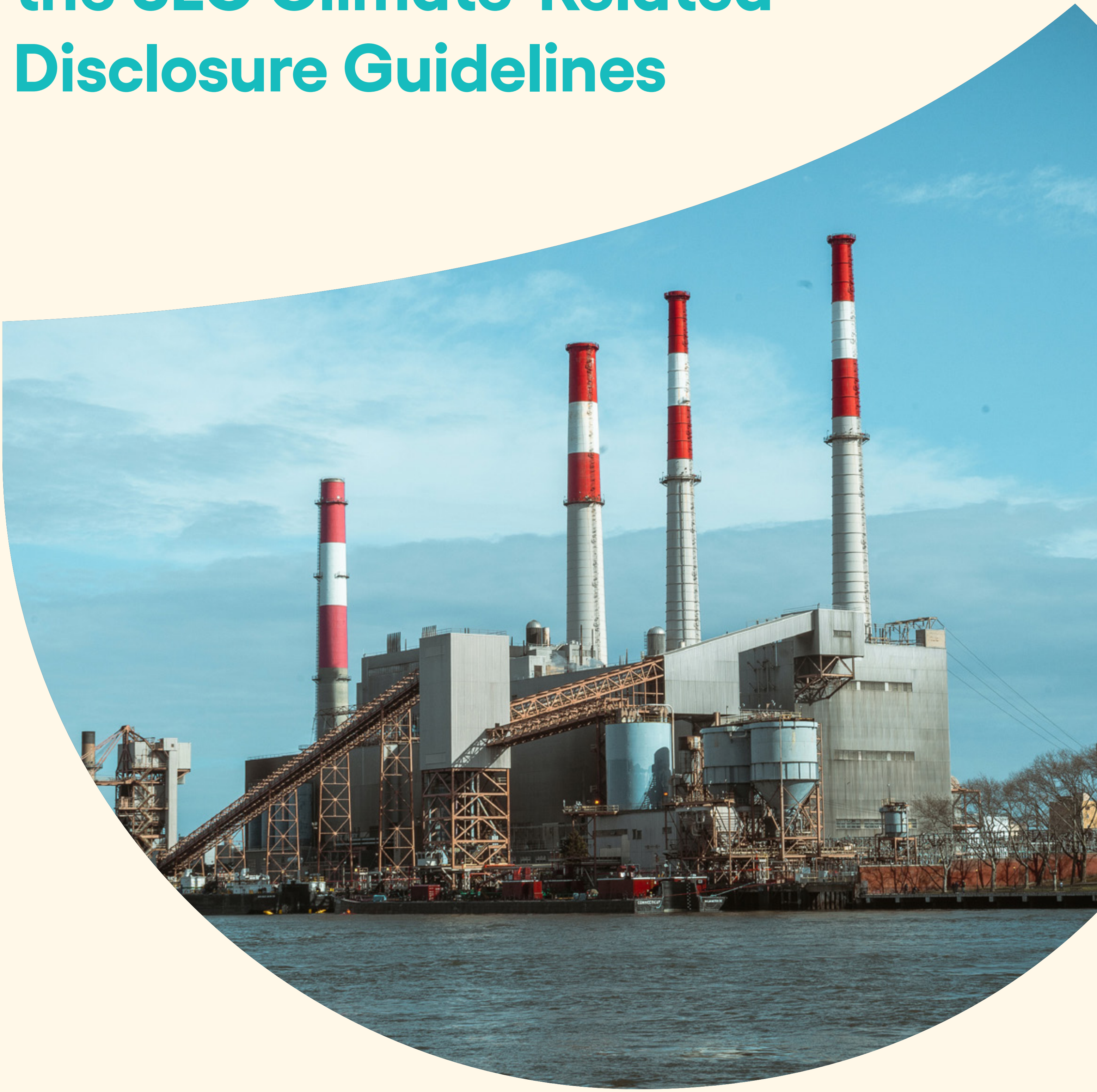
Brightly Brief: Preparing for the SEC Climate-Related Disclosure Guidelines



In March 2022, the United States Securities and Exchange Commission (SEC) proposed rule changes for the financial filings of publicly traded companies that would require the inclusion of climate-related information, including emissions data, climate-related risks and more.

While the proposed rule does not include requirements for emission reductions, it marks an important turning point for US companies waiting to implement sustainability strategies. **The purpose of this brief is to help your organization understand potential responsibilities resulting from the SEC.**

At the time of the publication, the SEC is still reviewing publicly submitted comments. Follow Brightly's blog to find out if dates and requirements change.

A History of Emissions Reporting for Companies

The SEC's proposed rule marks the first time the US federal government is laying down an emission reporting requirement. In contrast, individual nations in Europe have released a steady stream of rules around emissions and disclosures. At the regional level, the European Union's Sustainable Finance Disclosures Regulation (SFDR) will become active at least a year ahead of the SEC's rule.

For the last decade, climate reporting in the US has largely been investor-led through voluntary frameworks such as the CDP or vertical-specific assessments. For example, the Global Real Estate Sustainability Benchmark (GRESB) is an industry-standard assessment for properties and assets within the commercial real estate industry. A good GRESB rating marks a competitive advantage in the mind of investors and consumers.

In terms of regulations in the US, those have initiated at the state (Washington: Fuel Mix Disclosure) or municipality level (Boston: BERDO). Increasingly, constituents have demanded for federal action to be taken. The SEC applied two important lessons from early movers: the need for standardization and increased specificity to avoid a greenwashing label.

Today, companies must consider numerous combinations to disclose their emissions. They need to evaluate the standards they'll use to measure emissions (e.g., Greenhouse Gas Protocol), the frameworks or principles behind how they are reported (e.g., CDP) and even certifications they need to achieve (US Green Building Council). What's required may vary greatly by industry and from investor to investor. Following in the footsteps of the EU's SFDR, the SEC guidelines are aligned closely to the standards from the Task Force on Climate-related Financial Disclosures (TCFD). Further cementing this convergence toward TCFD, in April, Canada announced mandatory climate reporting requirements for banks and insurance companies.

Like other market trends, some early movers jumped on the carbon target bandwagon without fully understanding or adequately expressing how they could meet emissions reductions. According to the Grantham Research Institute, climate change-related litigation cases have doubled globally since 2015. This scrutiny reached the UK government via a lawsuit over the lack of explanation and quantification on how they would achieve emissions target obligations from the 2008 Climate Change Act. In response, they have included addendums to their net zero strategy. It makes sense that the SEC's initial proposal include rigor beyond what was expected from the US federal government and to use the public comment period as a barometer.

What the SEC means for all companies

While private or small companies won't have a 10-K to worry about, they will need to consider the impact to their role within the supply chain and public perception. Their emissions are their customers' or partners' Scope 3 emissions (indirect emissions from activities that are not owned or controlled).

Increasingly, major companies are setting sustainability standards for potential or existing suppliers. For example, Walmart launched Project Gigaton to help their suppliers set emission targets and reductions, with over 4,500 suppliers signed on since 2017. This means consumers and investors will have more rapid access to vet where they dedicate their money. Sustainability commitments will gradually transition from competitive advantage to standard operating cost for business.

A Glimpse into the Proposed Rule

What Companies Will Need to Report

Material Climate Impacts

- Disclosure of risks from physical climate-related hazards, such as fires or floods, by location and by share of assets exposed
- Disclosure of transition risks, which could be regulatory, technological, market or reputational risks, over the short, medium and long term
- Disclosure of strategic, financial and operational impacts, as well as governance and risk management processes to manage these risks

Greenhouse-gas Emissions

- Reporting of audited Scope 1 and Scope 2 emissions (emissions generated by a company's own operation and through the energy it purchases)
- Reporting Scope 3 emissions (upstream and downstream emissions along their supply chain) if they are material or if the company has a publicly stated target
- Reporting would need to be in absolute terms and in terms of intensity, both per unit of revenue (e.g., greenhouse gases per dollar) and sales per unit of a product (e.g., emissions per car manufactured)
- Disclosure on the method used to arrive at the estimates and what greenhouse gases the estimates cover—methane, nitrous oxide or CO_2, as well as the type of source

Emission Target or Transition Plans

- Disclosure of existing targets around emission reductions, energy use, nature conservation or revenues from low-carbon products
- Disclosure of the transition plans to achieve the targets, including specific information on the use of offsets or renewable energy credits (RECs)
- Disclosure of Internal Carbon Price (if used), how it is set and what it covers

Understanding your greenhouse gas emissions

Scope 1		The direct emissions from an organization's owned operations, including company-owned vehicles and buildings.
Scope 2		Indirect emissions from purchased electricity, steam, heating, and cooling.
Scope 3		All other indirect emissions generated throughout an organization's value chain.

Source: GHG Protocol

When Companies Will Need to Report

If adopted, the expectation would be US companies who file 10-Ks, as well as foreign private issuers who file 20-F forms with the SEC, will need to disclose for fiscal year 2023 or 2024, depending on the size of the company. Larger companies would be required to disclose as of the fiscal year 2023 and smaller companies would be subject to disclose by fiscal year 2024.

Note: There is some expectation that Scope 3 emission requirements would be extended one year or removed, based on public dialogue. This is due to difficulty understanding emissions within the supply chain. This may lead to market demand for private companies to begin reporting their emissions.

Phase-in Periods and Accommodations for the Proposed Disclosures

The proposed rules would include:

- → A phase-in period for all registrants, with the compliance date dependent on the registrant's filer status, and an additional phase-in period for Scope 3 emissions disclosure (see tables).
- → A phase-in period for the assurance requirement and the level of assurance required for accelerated filers and large accelerated filers (see assurance table).
- → A safe harbor for liability for Scope 3 emissions disclosure.
- → An exemption from the Scope 3 emissions disclosure requirement for smaller reporting companies.
- → Forward-looking statement safe harbors pursuant to the Private Securities Litigation Reform Act, to the extent that proposed disclosures would include forward-looking statements.

For explanatory purposes, the following tables assume that the proposed rules will be adopted with an effective date in December 2022 and that the filer has a December 31st fiscal year-end:

Registrant Type	Disclosure Compliance Date	
	All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric, but excluding Scope 3	GHG emissions metrics: Scope 3 and associated intensity metric
Large accelerated filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)
Accelerated filer and Non-accelerated filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)
SRC	Fiscal year 2025 (filed in 2026)	Exempted

Filer Type	Scopes 1 & 2 GHG Disclosure Compliance Date	Limited Assurance	Resonable Assurance
Large accelerated filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	Fiscal year 2026 (filed in 2027)
Accelerated filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	Fiscal year 2027 (filed in 2028)

Why companies shouldn't wait to track their carbon emissions

Continued volatility in the energy market means most companies are considering energy efficiency levers to keep operational costs down. But this does not translate into sustainability goals or emissions tracking. With this approach, they avoid the challenge of competing against early movers or having to make business cases for large capital expenditures.

For others, the challenge starts with corporate governance and a skills gap. Internal stakeholders need to be educated and disparate sets of data need to be collected and validated. With a patchwork of reporting standards across the US and investor community, some organizations have taken a wait-and-see approach before committing the resources needed.

Regardless of the challenges facing your organization, calculating a carbon footprint cannot be done overnight. Here are the key steps to work through:

- Setting up a single source of truth for energy data. Managing calculations out of spreadsheets is not a job anyone wants. Automation makes things manageable, and software solutions can support the transformation.
- Gain a clear vision about your emissions boundaries for Scope 1, 2 and 3. Align stakeholders on what you're measuring. Most importantly, be intentional about the steps you will then take to measure, and ultimately reduce, emissions.
- Be humble and transparent. Know that you're not going to get to Net Zero right away. The more transparent you are about your plans, the better your position will be with investors and consumer.

How Brightly Can Support SEC Compliance

Bottom line—more needs to be done to stop the effects of climate change. No matter what the final SEC rule looks like, these guidelines are a catalyst that will drive more action from your peers, local regulators, supply chain and stakeholders. You need to get started today and reporting your emissions is a necessary step.

The good news is that partners like Brightly are here to help you navigate energy efficiency and environmental, social and governance (ESG) data management. Brightly's energy experts and products can support companies' effort to collect energy data, track and report greenhouse gas emissions, as well as develop clear targets for emissions reductions.

While 2024 seems far away, collecting and tracking verifiable data does not happen overnight. As times continue to change, we are here to address and assist your ever-evolving needs, whether you're just starting out or need help taking your sustainability strategy to the next level. We offer a suite of award-winning solutions to help you optimize today, plan for tomorrow and help the world to thrive. **Our team is ready to help your organization get on the right path to energy compliance. Talk to one of our experts to learn about our solutions.**

Sources

1 Press release. SEC Emblem. (2022, March 21). Retrieved November 11, 2022, from https://www.sec.gov/news/press-release/2022-46

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4 Standards. Greehouse Gas Protocol. Retrieved November 11, 2022, from https://ghgprotocol.org/standards

About Brightly Software

Brightly, the global leader in intelligent asset management solutions, enables organizations to transform the performance of their assets. Brightly's sophisticated cloud-based platform leverages more than 20 years of data to deliver predictive insights that help users through the key phases of the entire asset lifecycle. More than 12,000 clients of every size worldwide depend on Brightly's complete suite of intuitive software – including CMMS, EAM, Strategic Asset Management, IoT Remote Monitoring, Sustainability and Community Engagement. Paired with award-winning training, support and consulting services, Brightly helps light the way to a bright future with smarter assets and sustainable communities. For more information, visit brightlysoftware.com

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