



# Breaking down the SEC's climate disclosure proposal

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# Agenda

01

Explain the key elements of the proposed rules

02

Discuss any highlights from the comment period

03

Outline next steps for the board, management, and internal audit





**OVERVIEW OF THE SEC RULE,  
STATUS OF THE COMMENT PERIOD,  
AND POTENTIAL NEXT STEPS**



# SEC climate disclosure proposal

- On March 21, 2022, the SEC issued its draft proposal on climate-related disclosure requirements.
- Disclosure requirements generally based on frameworks from the Task Force on Climate-Related Financial Disclosures (TCFD) and Greenhouse Gas (GHG) Protocol.
- Comments due June 17, 2022, following the SEC's May 9 announcement to extend the original comment due date.



## SEC proposal – disclosure overview

The proposal outlines various disclosures that might be required in registration statements and periodic reports. Proposed requirements subject to phase-in, depending on filer status and disclosure requirement, starting in 2023 (assumes final rule issued in calendar 2022).



How entity governs and manages climate-related risks



Actual or potential impacts of climate-related risks on business, strategy, outlook



Quantitative measures of greenhouse gas (GHG) emissions

assurance requirements – large accelerated and accelerated filers



Climate-related targets and goals, scenario analysis, and transition plans (if any)



Footnote disclosure of financial impacts, expenditures, estimates

included in audited financial statement footnotes

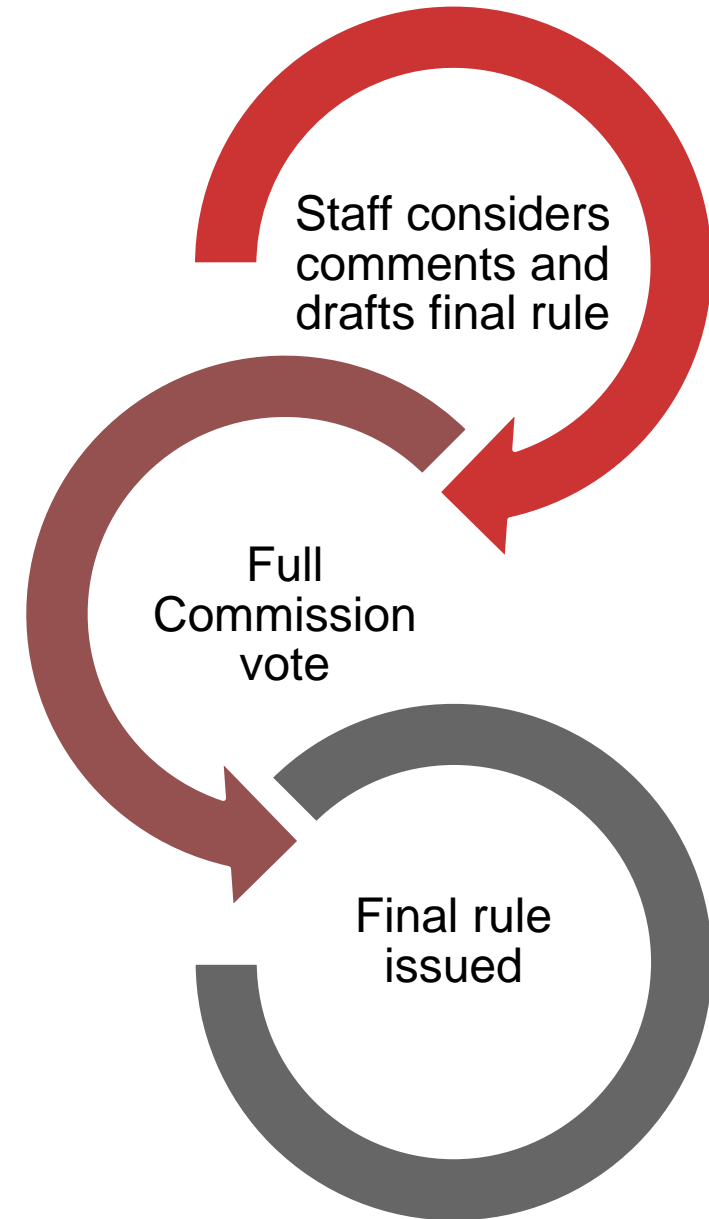
# When will disclosures and GHG emission assurance be required

	<b>Large accelerated filer</b>	<b>Accelerated filer</b>	<b>Non-accelerated filer</b>	<b>Smaller reporting company</b>
Fiscal 2023 (filed in 2024)	All disclosures, except Scope 3 emissions	n/a	n/a	n/a
Fiscal 2024 (filed in 2025)	All disclosures + Scope 3 emissions; Scope 1 and 2 require limited assurance	All disclosures except Scope 3 emissions	All disclosures except Scope 3 emissions	n/a
Fiscal 2025 (filed in 2026)	Same as fiscal 2024	All disclosures + Scope 3 emissions; Scope 1 and 2 require limited assurance	All disclosures + Scope 3 emissions (no assurance required)	All disclosures except Scope 3 emissions
Fiscal 2026 (filed in 2027)	All disclosures + Scope 3 emissions; Scope 1 and 2 require reasonable assurance	Same as fiscal 2025	All disclosures + Scope 3 emissions (no assurance required)	Same as fiscal 2025
Fiscal 2027 (filed in 2028)	Same as fiscal 2026	All disclosures + Scope 3 emissions; Scope 1 and 2 require reasonable assurance	All disclosures + Scope 3 emissions (no assurance required)	Same as fiscal 2025

## What's next

- 8000+ comments received
  - Extension requests
  - Form letters – several “types”
  - Distinct letters

<https://www.sec.gov/rules/proposed.shtml>





# Our thought leadership covers every step on your ESG journey

- ★ • **SEC proposes climate-related disclosures: A closer look (March 2022)**  
<https://www.crowe.com/insights/asset/s/sec-proposes-climate-related-disclosures-a-closer-look>
- **ESG: The growing challenge and opportunity (May 2021)**  
<https://www.crowe.com/uk/insights/esg-the-growing-challenge-and-opportunity>
- **Driving sustainability and growth: Learning from Formula E's success (June 2021)**  
<https://www.crowe.com/global/insights/art-of-smart/driving-sustainability-and-growth-learning-from-formula-es-success>
- **Six steps to create a culture of sustainability: Tips from Formula E (June 2021)**  
<https://www.crowe.com/global/insights/art-of-smart/six-steps-to-create-a-culture-of-sustainability-tips-from-formula-e>
- **Insights to guide your ESG strategy (November 2021)**  
<https://www.crowe.com/insights/insights-to-help-guide-your-esg-strategy>
- **Identifying efficiencies in your ESG strategy (webinar, December 2021)**  
<https://www.crowe.com/insights/asset/i/identifying-efficiencies-in-your-esg-strategy-recording>
- **ESG news in the new year (webinar, February 2022)**  
<https://www.crowe.com/insights/asset/e/esg-news-in-the-new-year-webinar-recording>
- **Crowe articles in Forbes:**
  - How to leverage strengths when building an ESG program (January 2022)
  - ESG program maturity: Four stages (January 2022)
  - 4 reasons ESG means “green” to private equity (January 2022)
  - 5 things decision makers need to know about ESG in the new year (January 2022)<https://www.forbes.com/sites/crowe/2/?sh=189fe8144ead>

## Featured insights



WEBINAR

### ESG news in the new year

On Feb. 9, 2022 Chris McClure, Gregg Anderson, and Sonia Barros from Sidley presented "ESG news in the new year".





## CONSIDERATIONS FOR THE BOARD AND STEPS TO PREPARE NEW DISCLOSURES



## Considerations for the board and steps to prepare for the SEC's proposed rules on disclosures on climate-related risks

- “One size does not fit all”: Companies are in varying stages of development when it comes to climate-related disclosures and sustainability.
- The proposed rules mandate governance disclosure at both the board and management level:
  - Issues related to board-level structures and disclosures
  - Issues related to management-level structures and disclosures
- Other considerations:
  - Prepare for new Regulation S-X disclosures
  - Disclosure controls and procedures
  - Compensation issues
  - External consultants



# THE ROLE OF INTERNAL AUDIT



# Environmental, social, and governance components – internal audit framework



# Environmental – climate disclosures – internal audit role

- Internal Audit's role – should be aligned to COSO Framework for Sustainability Reporting
  - Internal initiatives/programs
  - External public facing
- External public reporting
  - Controls around disclosures
    - Data quality – completeness and accuracy
    - Disclosure wording tied to regulations
  - Climate and gas emissions metrics and reporting
  - Energy utilization goals and metrics
  - Environmental ecosystem goals and metrics
- Internal initiatives/programs – control focus
  - Enterprise risk management – governance and ownership- Taskforce creation, etc.
  - Risk management decisions – how are programs started, selected, and approved?
  - Policies and processes for collecting and validating data
  - Monitoring of progress for initiatives
  - Regulation changes and updates



An aerial photograph of a field with a grid of blue squares overlaid. The squares are arranged in a regular pattern, and the field's texture is visible through the grid. The text "CONSIDERATIONS FOR EXTERNAL ASSURANCE" is centered in white, uppercase letters.

# CONSIDERATIONS FOR EXTERNAL ASSURANCE

# Auditor considerations – disclosure of climate-related risks (outside the financial statements)

- Inform the risk assessment process
- Inform the audit approach for testing the financial statement disclosures related to the impact of climate-related events
- Corroborative or contradictory audit evidence for evaluating accounting estimates

# Auditor considerations – financial statements and disclosures

- Understand how transactions related to climate-related events are initiated, authorized, processed and recorded, including understanding of the systems and data used to prepare the disclosures
- Evaluate the impact of climate-related risks on estimates and assumptions used to produce the financial statements
- Evaluate the controls over the climate-related disclosures
- Substantive testing of the disclosures
  - Testing of data
  - Testing of forward-looking information



# Auditor considerations – GHG emissions data

- Attestation requirements for large accelerated and accelerated filers on Scope 1 and Scope 2 emissions data
- Understand the client's experience with GHG emissions data
- Evaluate the key judgments/decisions by management
  - Whether Scope 3 emissions data is required to be reported
  - Scope 1 and Scope 2 activities that have been identified by management
  - Organizational and operational boundaries
- Testing of estimates used in calculating GHG emissions data
  - Evaluate the methods, test the significant inputs, and evaluate the significant assumptions used to calculate GHG emissions data
- Considerations related to Scope 3 emissions data

# Questions for audit committees to auditors on climate-related disclosures

- How has the auditor considered the climate-related risks within the risk assessment process for the audit?
- Are there specific accounting estimates or assumptions that the auditor has identified as being significantly impacted by climate events?
- What steps is the auditor taking to prepare for the potential requirements related to the financial statement disclosures and GHG emissions data?
- What does the auditor view as the biggest challenges for the company in preparing for the requirements included in the SEC proposal?
- How has the audit committee considered engaging in sessions with management and the auditor to better understand the disclosure requirements from various regulators and how the disclosures will impact the company's financial reporting process and internal control over financial reporting?





# THANK YOU

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### Licenses and certifications

- Certified Public Accountant (CPA) IL and TX
- Certified Fraud Examiner (CFE)
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### Education

- M.B.A., Kellogg School of Management at Northwestern University
- Bachelor of Science, Accounting/Finance, Trinity University

Christopher is a partner with Crowe LLP, an independent member of the Crowe Global accounting and consulting network. He assists companies and their counsel in dealing with compliance and investigations. Christopher has significant experience dealing with the SEC, the EPA, and other regulatory bodies.

Christopher leads efforts at Crowe to assist clients with ESG and reporting requirements. He is a frequent speaker on the subject, most recently at the AIAG Conflict Minerals Meeting, CFSI Annual Workshop, AIAG Conflict Minerals Symposium, National Association of Corporate Directors, and through the Practising Law Institute.

Christopher works with a wide variety of manufacturers to design and implement comprehensive compliance programs related to conflict minerals, anti-human trafficking, fraud prevention and anti-bribery, and other regulatory requirements.





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### Education and certifications

- Bachelor of Business Administration/Accounting at University of Houston | Houston, TX
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Mr. Shannon is a partner in the assurance professional practice (APP) group, which is the Crowe national office. His primary responsibilities include supporting the audit group on technical accounting questions and issues related to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). In this role, he devotes significant effort to the firm's SEC audit team – consulting on SEC rules and filing requirements, securities offerings, comfort letters, and comment letters. He serves as a designated liaison to the SEC on practice matters related to accounting, financial reporting, and regulatory issues.



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### Education

- LL.M., University of Pennsylvania Law School, 1982
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Marc M. Rossell, co-chair of the firm's Latin America practice, focuses his practice on capital markets transactions, including both equity and debt securities offerings and structured financings. Marc has been involved in many of the largest securities offerings out of Latin America, including landmark privatization offerings by the Argentine government's national oil company and telephone companies, the privatization of the Peruvian telephone company, as well as many high-yield debt offerings and equity offerings of companies in Argentina, Chile, Colombia, the Dominican Republic, Mexico, Panama, Peru, Trinidad and Tobago, and other countries. During the 1980s, he spent a considerable amount of time as bank advisory committee counsel, focusing on the restructuring of the external debt of many countries in Latin America. He also represents creditors and debtors in liability management transactions and has considerable experience with the issuance of project bonds to finance construction projects, many of which have won awards from industry publications. [Learn more.](#)

### Concentrations:

Capital markets  
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Energy and infrastructure  
Project bonds  
Liability management transactions  
Corporate governance



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Adam is a senior manager in the consulting group at Crowe and has more than 13 years of experience, including companies within the manufacturing, life science, healthcare, and construction industries. Adam's experience includes projects within accounting advisory, data privacy, internal audit, Sarbanes-Oxley (SOX), enterprise risk management, compliance, and third-party vendor reviews.





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Wes is a partner in the assurance professional practice (APP) group in the Livingston, New Jersey, office of Crowe LLP. Wes has over 22 years of experience in public accounting, including two years as a Professional Accounting Fellow in the U.S. Securities and Exchange Commission (SEC)'s Office of the Chief Accountant and currently focuses on evaluating audit standards and audit quality matters in the Crowe national office (APP).