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AVISTA GROUP

SEC’s Proposed Climate Disclosure Rules

— Impacts on Registrants —

In March 2022, the SEC proposed new climate disclosure rules to strengthen and standardize public companies’ climate disclosures, with the aim of providing consistent, comparable, and useful information for investors to utilize in their decision-making processes.

Public comments on the SEC proposal have been received. If adopted, the proposed changes would require registrants to disclose extensive climate-related information within their annual reports and registration statements, including greenhouse gas (GHG) emissions, as well as the impacts and governance of climate-related risks.

Major Proposed Disclosure Requirements

Drawing on existing frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD) and the GHG Protocol, the SEC's proposal would require registrants to disclose information including the following:

GHG emissions

Scope 1 GHG emissions

- Direct emissions from owned or controlled sources

Scope 2 GHG emissions

- Indirect emissions from purchased electricity, steam, heating and cooling

Scope 3 GHG emissions

- All other indirect emissions occurring in registrant's value chain. Disclosure on Scope 3 GHG emissions is only required if material, or if they are included in registrants' emission reduction targets or goals

Climate risk disclosures

The SEC proposal considers both physical and transition risks as climate-related risks that are subject to disclosure. Both quantitative and qualitative risk disclosures would be required.

Financial statement footnote disclosures will involve quantitative climate risk disclosures, such as:

- Impacts of transition activities, severe weather events and other natural condition on financial statement line items, if said impact exceeds a 1% threshold

- Expenditures associated with risk mitigation of severe weather events and other natural conditions, as well as transition activities, if exceeding 1% of the total amount expensed

- How climate change-related events and transition activities have affected the relevant estimates and assumptions used

Proposed qualitative risk disclosures include the following:

- Physical and transition risks that are likely to have a material impact on the registrant's operations and financials, as well as how these risks may impact the company's strategy, business model and outlook

- The locations of assets likely to be impacted by climate-related risks, disclosed at a zip code level

Governance of climate-related risks

- Board of directors and management's oversight of climate risks
- How the registrant identifies, evaluates, and manages climate-related risks, as well as the role of such processes in the registrant's overall risk management systems

Other notable proposed rules include requiring companies to disclose any climate-related targets or goals, as well as transition plans. Companies must be able to substantiate publicly disclosed climate-related targets or goals, by providing information including how they plan on achieving such targets or goals as well as annual updates on progress.

Additionally, note that Scope 1 & 2 GHG emissions disclosures by accelerated and large accelerated filers would require third-party assurance. If the proposed rules become effective by December 2022, companies with 31 December year-end would have to comply according to the following schedule:

Registrant Type	All Disclosures, excluding Scope 3	Scope 3 GHG Emission Disclosures	Assurance on Scope 1 & 2 Emission Disclosures
Large accelerated filers	FY 2023	FY 2024	Limited assurance - 2024 Reasonable assurance - 2026
Accelerated filers	FY 2024	FY 2025	Limited assurance - 2025 Reasonable assurance - 2027
Non-accelerated filers	FY 2024	FY 2025	Exempt
Smaller reporting companies	FY 2025	Exempt	Exempt

SOURCE: Securities and Exchange Commission (SEC)

Next Steps for Companies

If adopted, these significant changes in climate disclosure requirements will likely present a huge challenge for many public companies. Considering the time and effort required to comprehend and comply with these rules, it is ideal for companies to begin preparing as soon as possible. As multiple components of the proposal are consistent with frameworks such as the TCFD and GHG Protocol, companies that have already published disclosures aligned with these frameworks may benefit from a slightly smoother transition.
Nevertheless, companies should consider the following points during their preparation:

The role of board of directors in the oversight and governance of climate-related risks

Companies may consider providing training for directors and management, to inform them about the latest disclosure requirements as well as climate-related risks.

The roles and responsibilities of different departments in preparing climate-related disclosures

The development of climate disclosures, strategy and risk management will require strong cross-departmental collaboration. Companies should clarify the roles of different departments to establish a clear and robust framework.

Compliance gap analysis

Company should review and compare the proposed disclosure requirements to the company's current disclosure practices, identifying any gaps that must be addressed to ensure compliance. These would include disparities in disclosure deadlines, additional information and data that must be collected, as well as supporting procedures and processes that need to be implemented.

Data management

Company should identify the types of data and metrics to be collected and the methodologies to be adopted. Companies should develop robust data collection processes to increase data collection efficiency and ensure data quality. Investing in the automation of such processes is one way of optimizing data management mechanism.

The proposal will undeniably pose a challenge to many registrants. However, the opportunities it presents should also be recognized: strong climate-related disclosures are a promising way of enhancing credibility and boosting investor interest. For companies that decide to take full advantage of the opportunity, such disclosures will ultimately prove to be a powerful driver of value in the long run.

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With a strong presence in the Asia-Pacific region, we are headquartered in Hong Kong, and have offices in Shanghai and Beijing.

The AVISTA professional team comprises professional consultants with different areas of expertise and detailed familiarity of financial reporting standards and regulatory standards. Our team of experienced professionals come from globally-renowned valuation firms, consulting firms and international accounting firms with global qualifications such as CFA, CPA, CPV, FRM, MRICS, FCCA, CIA, CISA, ACS and so on.

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