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SEC Finalizes Climate-Related Disclosure Rules

Almost two years after the rules were first proposed, the U.S. Securities and Exchange Commission (“SEC”) yesterday released its [final rules](#) on climate-related disclosures. As expected, the final rules are significantly less burdensome than the proposed rules and include the following key changes relative to the initial proposal:

- Eliminating Scope 3 GHG emissions disclosures for all issuers;
- Limiting required disclosure of Scopes 1 & 2 GHG emissions to large accelerated and certain accelerated filers for which such emissions are material;
- Extending phase-in periods for assurance of GHG emissions;
- Eliminating disclosures on board climate expertise;
- Adopting less prescriptive disclosures on board climate risk oversight;
- Establishing safe harbors for forward-looking disclosures related to transition planning, scenario analysis, internal carbon price, and targets and goals; and
- Narrowing the scope of financial disclosures under Reg. S-X to certain capitalized costs and material impacts of climate events and transition activities on financial reporting estimates and assumptions.

While the final climate rules will undoubtedly be subject to intense debate and will likely face legal challenge, their evolution from the proposed rules reflects efforts by the SEC to strike a balance between the growing reporting burdens facing issuers—particularly medium- and smaller-sized companies—and investor demand for consistent and comparable climate-related disclosures.

The new reporting requirements will also overlap with the myriad of other sustainability and climate disclosure requirements that many U.S. companies already face or are anticipating, including the EU’s Corporate Sustainability Reporting Directive, the International Sustainability Standards Board’s sustainability and climate-related disclosure standards, and California’s climate-related disclosure requirements.

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As the risks and costs of climate change and severe weather events continue to increase, the importance of ensuring all companies are able to focus resources on addressing and mitigating climate-related risks cannot be underestimated. At the same time, uncertainty remains as to how ambitious GHG emissions reduction targets and commitments announced in recent years will be accomplished and at what cost, and what additional efforts and resources are needed to respond to climate change.

Accordingly, the availability of relevant and credible climate-related disclosures will be important to informed investor assessments of their portfolios. Standardized and comparable reporting across companies will also help ensure that capital markets are able to efficiently adapt to and price in the costs of climate change.

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