

# **Regulatory Alert**

## **Global Environmental and Chemical Regulations, Policies, and Standards**

**Alert 33**



## The Enhancement and Standardization of Climate-Related Disclosures for Investors Region: USA

### WHY IS THIS ALERT IMPORTANT?

If your company is publicly traded and files reports with the U.S. Securities and Exchange Commission (SEC), understanding the significance of the SEC's [final rules](#) on climate disclosures is crucial. [Finalized](#) on 6 March 2024, and published in the Federal Register on 28 May 2024, these rules, which are effective immediately<sup>1</sup>, establish a standardized framework for disclosing climate-related information. The rule enables consistency and transparency for disclosure of how climate-related risks may affect your company's business, financial performance, and overall financial position. The standardization allows investors to compare your company's climate-related risks and strategies with those of other companies, facilitating informed decision-making.

The rules provide increased rigor with which companies handle climate data to transition from voluntary to regulated reporting. Additionally, the update encourages practices, which can enhance your company's reputation and improve its risk management strategies. While the rules do not explicitly mention what specific penalties will be for non-compliance, failure to adhere to these regulations could lead to enforcement actions by the SEC.

### INTENDED AUDIENCE

This Regulatory Alert is intended for publicly traded companies in the Aerospace and Defense (A&D) industry that file reports with the SEC. It provides essential information on the SEC's final rules regarding climate-related disclosures and their implications for A&D companies and their supply chain.

### EXECUTIVE SUMMARY

The SEC's final rules on climate-related disclosures require publicly traded companies filing reports with the SEC to disclose standardized information on their climate-related risks, governance, and greenhouse gas emissions in their filings. This aims to enhance transparency by providing investors with clear and comparable information for informed decision-making. The rules foster market stability by promoting transparency, risk awareness, and informed decision-making. In addition, it allows companies to showcase their climate awareness and potentially attract environmentally conscious investors by complying with these standards. The rules have a phased-in

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<sup>1</sup> On April 4, 2024, the SEC voluntarily stayed the rules pending judicial review likely delaying implementation. The stay followed a number of petitions for review filed against the SEC before the U.S. Court of Appeals for the Eighth Circuit. However, the stay is limited to the new Enhancement and Standardization of Climate-Related Disclosures for Investors rule, and as stated in Footnote 8 of the [stay order](#), "The stay issued by this Order is limited to the Final Rules that have been challenged in the consolidated Eighth Circuit petitions. It does not stay any other Commission rules or guidance. See, e.g., Commission Guidance Regarding Disclosure Related to Climate Change, Rel. Nos. 33-9106; 34-61469 (Feb. 2, 2010), 75 Fed. Reg. 6290 (Feb. 8, 2010)." The SEC has stayed the climate rules, not climate disclosure, and SEC registrants will continue to provide voluntary climate-related disclosures on websites and in sustainability reports and CDP reports. In addition, companies may also be required to comply with similar rules in other jurisdictions (e.g., California and the European Union).

compliance approach, which allows companies time to adapt, and a safe harbor provision that protects them from lawsuits based on certain forward-looking climate disclosures.

## BACKGROUND

Climate change and its related risks have become a major focus for the SEC, with significant financial implications for businesses across various sectors. The SEC acknowledges this in a [press release](#) announcing the final rules, highlighting that investors increasingly seek information about climate-related risks and their potential impact on companies. These risks include rising temperatures, extreme weather events, and sea level rise, which can threaten infrastructure, operations, and supply chains.

In response to these concerns and the growing importance of Environmental, Social, and Governance (ESG) factors in investor decision-making, the SEC has taken steps to improve the quality and consistency of climate-related disclosures. Previously, the lack of standardized requirements led to limited and inconsistent information from companies. This made it difficult for investors to compare companies' climate risks and mitigation strategies, hindering informed investment decisions, as stated by the SEC in their adoption of the final rules.

The SEC's final rules aim to address this gap and enhance transparency. These rules require publicly traded companies to disclose material climate-related information in their filings, providing investors with consistent, comparable, reliable, and decision-useful information about a company's climate-related risks and opportunities.

## APPLICABILITY

The SEC's final rules apply to all publicly traded companies (registrants) filing reports under the Securities Exchange Act of 1934. However, there are phased-in compliance periods based on the company's filing category:

### 1. **Large Accelerated Filers (LAFs):**

- » Compliance with disclosure and financial statement effects audit begins in the fiscal year beginning in 2025 (FYB 2025).
- » Compliance with disclosing Scope 1 and 23 greenhouse gas (GHG) emissions requirements begin in the fiscal year beginning in 2026 (FYB 2026).
- » Compliance with greenhouse gas emissions limited assurance requirements begin in the fiscal year beginning in 2029 (FYB 2029).
- » Compliance with greenhouse gas emissions reasonable assurance requirements begin in the fiscal year beginning in 2033 (FYB 2033).
- » Electronic tagging of climate-related disclosures using [Inline eXtensible Business Reporting Language \(XBRL\)](#) becomes mandatory in the fiscal year beginning in 2026 (FYB 2026).

### 2. **Accelerated Filers (AFs) other than [Smaller Reporting Companies \(SRCs\)](#) and Emerging Growth Companies (EGCs):**

- » Compliance with disclosure and financial statement effects audit begins in the fiscal year beginning in 2026 (FYB 2026).
- » Compliance with disclosing Scope 1 and 2 GHG emissions begins in the fiscal year beginning in 2028 (FYB 2028).

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<sup>2</sup> "FYB" refers to "Fiscal Year Beginning" in the calendar year mentioned.

<sup>3</sup> Scope 1 emissions refer to those directly generated by the company's operations, while Scope 2 emissions are indirect emissions from purchased electricity, heat, or cooling.

- » Compliance with greenhouse gas emissions limited assurance requirements begin in the fiscal year beginning in 2031 (FYB 2031).
  - » Electronic tagging of climate-related disclosures using Inline XBRL becomes mandatory in the fiscal year beginning in 2026 (FYB 2026).
- 3. Non-Accelerated Filers<sup>4</sup> (NAFs):**
- » Compliance with disclosure and financial statement effects audit begins in the fiscal year beginning in 2027 (FYB 2027).
- 4. Smaller Reporting Companies (SRC) and Emerging Growth Companies (EGC):**
- » Currently exempt from the requirement to disclose climate-related risks. The SEC acknowledged the potential burden such disclosures could place on smaller companies while aiming to balance the need for comprehensive climate risk information.
  - » SRCs remain exempt from disclosing GHG emissions data. The SEC's analysis indicated low existing disclosure rates for these companies, and the potential costs were deemed outweighing the benefits at this time.

For more information, please refer to the official texts of the final rules.

## RELEVANT DATES

- » Effective: 28 May 2024
- » Compliance dates: Vary, based on the company's filing category. See the section above and the official texts of the final rules for detailed compliance dates.

## REGULATORY OBLIGATIONS

The SEC's final rules establish specific disclosure requirements for public companies. These can be broadly categorized as follows:

- » **Identification of Material Climate Risks:** Companies must identify climate-related risks that could have a significant impact on their business and describe the potential consequences on their strategy, business model, and financial outlook in the short term (i.e., next 12 months) and long-term (i.e., beyond 12 months).
- » **Risk Management Strategies:** Companies must disclose any mitigation or adaptation activities they have in place to address climate risks. This includes information on related expenditures and their financial impacts. Companies with transition plans to address climate risks must describe the plan, actions taken, and resulting impacts on the business. The use of scenario analysis and internal carbon pricing for managing climate risks also requires specific disclosures.
- » **Governance and Oversight:** Companies must disclose the involvement of the board of directors and management in overseeing and managing climate risks. They must describe their process for identifying, assessing, and managing climate risks, including integration with overall risk management systems.
- » **Climate-Related Targets and Goals:** Companies with climate-related targets or goals that materially affect their business must disclose them, including related expenditures, results of operations, and financial impacts.

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<sup>4</sup> i.e., a reporting company that does not meet the requirements of a large accelerated or an accelerated filer.

- » **Financial Statement Effects:** Companies must disclose financial statement effects that results from severe weather events and other natural conditions and material expenditures directly related to climate-related activities as part of a registrant’s strategy, transition plan and/or targets and goals.
- » **Greenhouse Gas Emissions (for Large Accelerated and Accelerated Filers):** Large Accelerated Filers and Accelerated Filers that meet a materiality threshold must disclose Scope 1 and/or Scope 2 emissions metrics. Phased-in compliance requires filing attestation reports for these disclosures, starting with limited assurance and transitioning to reasonable assurance for LAFs.

Compliance with these regulations is mandatory for all public companies registered with the SEC.

## RISKS TO AEROSPACE AND DEFENSE

While the final rules do not specify penalties for non-compliance, companies failing to comply with these disclosure requirements could be subject to enforcement actions by the SEC, reputational harm, and potential lawsuits from investors.

### USEFUL LINK

[Final Rule](#)

[SEC’s Press Release](#)

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