

1. Summarize the key points of each document.

- a. Background: The SEC has been looking into environmental disclosures since the 1970s. Back then, companies were encouraged to share how environmental laws affected their businesses. In 2010, the SEC gave more guidance by saying that companies might need to talk about climate risks if they were important to investors. Since then, however, most climate information has been voluntary. The SEC believes it is time to create clear and consistent rules.
- b. The March 2021 Request for Public Input: In 2021, the SEC asked the public what they thought about climate disclosures, and they received thousands of responses. Many investors and groups supported stronger rules and said that climate change affects business and financial performance. However, some commentators disagreed and said the SEC was overstepping while others worried about the costs and legal risks. The SEC took this feedback into account when writing the proposal.
- c. Investor Demand for Climate Information: Investors are asking for better climate data. Big firms like BlackRock, Vanguard, and public pension funds say they want companies to report climate risks in a way that is useful and easy to compare. Right now, companies use different methods which makes it hard to evaluate or trust the information provided. Investors want clear disclosures to help make better decisions and manage long-term risks.
- d. Development of a Climate-Related Reporting Framework: The SEC based their proposal on two existing frameworks to keep things consistent. The first is TCFD, which helps companies report how they manage climate risks (including strategy and oversight). The second is GHG Protocol, which shows how to measure emissions. It breaks them into Scope 1 (direct), Scope 2 (energy use), and Scope 3 (indirect). These are already being used by many companies, so the SEC wants to build on what is familiar.
- e. Summary of the Proposed Rules: The SEC wants companies to include climate-related information in official filings like the 10-k. They would need to talk about climate risks, explain how those risks could affect the business, and share any goals related to emissions. Companies would also need to report Scope 1 and 2 emissions (Scope 3 would only be required in certain situations). Larger companies would need to get their emissions data verified by an outside party. There would be a phase-in period depending on the company's size.

2. Does the proposed SEC regulation provide sufficient guidance to the industry on the following:

a. What is going to be categorized as ESG issues/standards

- i. The proposed SEC regulation gives a good starting point, but it does not fully list out what counts as ESG issues across the board. It focuses mainly on the “E” in ESG by requiring disclosures on climate-related risks, greenhouse gas emissions, and how companies manage those risks. It uses existing frameworks like ECFD and the GHG Protocol, which helps give structure, but it still leaves room for interpretation. The rule does not go deep into social or governance issues, and it does not set one clear definition for what is or is not an ESG issue.

b. What related data will be required to verify adherence to these standards

- i. For data, the proposal does not require companies to back up their climate-related disclosures with measurable information. For example, they would need to report emissions and explain how they are calculating them. Larger companies would also need to get outside verification on their emissions data. However, when it comes to broader ESG claims or strategies, the rule does not say much about what data is required or how it should be verified. So while the proposal improves climate transparency, there are still gaps left.

3. Provide specifics on the "why or why not" for your response. Imagine you are the auditor and you are trying to figure it out for your client. Would you clearly know what to tell them?

- a. If I were the auditor trying to help a client understand what is expected under this proposed rule, I would say that the SEC gives decent guidance on climate-related disclosures, but it is not always clear, especially when trying to turn the rule into action steps. The rule mainly talks about environmental things, not the full ESG range. Social and governance factors are barely mentioned, and there is not exactly a checklist that dictates what exactly needs to be disclosed if they want to claim to be ESG focused. Even for the climate area, some parts are vague. For example, what counts as “reasonably likely to have a material impact” is open for judgement. If a company uses carbon offsets or internal carbon pricing, the rule says that they need to disclose the details, but it does not really define what is acceptable or what level of evidence is strong enough. So from an auditor’s view, I would know the general categories, but I would still be asking follow-up questions or checking in with a legal team to determine how far we need to go with documentation and testing. I could get the client started, but I would probably end up telling them what we know and where we will need to make some judgement calls.

4. Does the proposed SEC regulation address the potential issues raised in the article "ESG: Trends to Watch in 2023"?

- a. The SEC's proposed rule addresses some of the article's concerns, mainly around climate and environmental disclosures. It helps with the push for more reliable ESG data and gives companies a framework for reporting emissions and climate risks. That lines up with the article's first and third trends about regulatory pressure and data needs. However, the rule does not go far on social or governance issues, which the article highlights as growing risks. It also does not help companies deal with political backlash, greenhushing, or rising ESG-related lawsuits. So while it is a good step for climate reporting, it leaves gaps when it comes to the full scope of ESG concerns raised in the article.

5. Provide specifics on how the proposed regulation does or does not address the concerns expressed in the article.

- a. It addressed some concerns in the article, but not all. It helps with the demand for better climate-related data by requiring companies to disclose their emissions and explain how climate risks might affect their business. This matches what the article says about the need for more reliable and trackable ESG information. It also supports the trend of increased global regulation by trying to bring the U.S. closer to what is already happening in places like the EU. However, the rule does not really deal with political pressure companies are facing in the U.S. It does not offer guidance for handling greenhushing or how to communicate ESG goals when there is backlash. It also leaves out most social and governance issues, even though the article talks about those being part of lawsuits, proposals, and even board responsibilities. The article makes it clear that ESG is more than just the environment, but the SEC's rule mostly sticks to just climate. So while it is a useful step, it does not fully cover the bigger picture companies are trying to manage.

References

Holland, E. B., & Malone, L. (2023, March 4). *ESG: Trends to watch in 2023*. The Harvard Law School Forum on Corporate Governance. <https://corpgov.law.harvard.edu/2023/03/04/esg-trends-to-watch-in-2023/>

SEC. (2022, March 21). *The Enhancement and Standardization of Climate-Related Disclosures for Investors*. Securities and Exchange Commission. <https://www.sec.gov/files/rules/proposed/2022/33-11042.pdf>