

## SEC CLIMATE CHANGE DISCLOSURE GUIDANCE

In late January, the SEC issued an *interpretive release* providing guidance to companies regarding required disclosure relating to the impact of climate change on their business. The new guidance will impact the disclosure required in upcoming annual reports on Form 10-K.

The guidance highlights four significant areas that should be evaluated as possibly triggering disclosure, particularly in the company's discussion of risk factors, description of business, legal proceedings and MD&A. When preparing disclosures, the company must consider the following as they relate to climate change:

- **The impact of legislation and regulation** -- The SEC recognizes that this is a rapidly changing area. Companies must consider the material costs of compliance with climate change related legislation and regulation (such as those governing greenhouse gas emissions) and determine whether disclosure is required. The company must disclose the specific risks associated with legislation and regulation relating to climate change that materially impact the company. For MD&A disclosure, the company must determine whether the legislation or regulations are reasonably likely to have a material effect on the company, its financial condition or results of operations. With respect to determining the impact of legislation and regulations on the company, the company should consider both existing and pending legislation and regulations, including an analysis of the reasonable likelihood of such pending matters being enacted. In addition, consideration should be given to both the positive and negative consequences of climate change related legislation and regulation.
- **International accords** -- The company must disclose the material impacts on its business from treaties or international accords relating to climate change and, similar to above, must evaluate the impact of pending agreements.
- **Indirect consequences of regulation or business trends** -- Legal, technological, political and scientific developments regarding climate change may result in added opportunities for a company, or added risks. The actual or potential result of these trends or risks may be material to a company and its business, and require disclosure. When evaluating this indirect impact, the company must also consider the impact climate change matters may have on the company's reputation.
- **The physical impacts of climate change** -- Floods and hurricanes, among other physical effects of climate change, can potentially impact a company's business and financial condition. A company that may be vulnerable to climate related events should consider whether disclosure of material risks or their potential consequences should be made.

*Recommended Actions:*

- Review processes in place to determine whether climate change issues are material to the company
- Review the new SEC guidance to ensure complete disclosure compliance in public filings
- Monitor legislation and regulations regarding climate change matters and assess the actual and potential impact of such on the company

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