WATERSHED GUIDE

Climate disclosure for companies

2024 EDITION

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Navigating sustainability disclosure in 2024

Surveying the global sustainability landscape, it's clear we've reached the other side of a tectonic shift: emissions measurement and disclosure is now regulatory fact. 2024 is the year in which climate reporting will become truly global, as jurisdictions start to implement new standards from the International Sustainability Standards Board (ISSB), climate disclosures become law in California, and the Corporate Sustainability Reporting Directive (the CSRD) affects companies in and out of the EU.

All these policies are designed to encourage rigorous carbon accounting and climate action planning. 2024 will also bring two new regulatory themes: formal climate transition plans and new requirements for the measurement and disclosure of broader ESG data. This is driven particularly by the EU's CSRD, which requires wider environmental, social, and governance (ESG) data starting in 2025.

The convergence of these two trends—the expansive global scope of regulations and the more rigorous data they demand—underscores that 2024 is a year in which companies must elevate their sustainability reporting.

This comprehensive guide is designed to equip your company with a thorough understanding of global emissions disclosure mandates and transition plan requirements and a preview of the major regulatory developments on the horizon.

We hope this resource helps you navigate the dynamic, ever-changing climate landscape.

Matt Fisher
Head of Policy, Watershed

Disclosure 101

Before we get into the weeds on individual programs, here are a few big-picture ideas to help explain the logic behind all this legislation.

01 It’s all about the scopes

The Greenhouse Gas (GHG) Protocol—the basis of climate accounting—categorizes emissions by three buckets, also called scopes.

Scope 1

Your company owns something—a car, a boiler, a smokestack—that directly emits greenhouse gases into the atmosphere. Examples: burning natural gas to heat a building; driving a company-owned car that burns gasoline.

Scope 2

Indirect emissions from purchased electricity, heat, or cooling. Examples: purchasing electricity for an office or warehouse from a local utility.

Scope 3

Everything else. Divided into “upstream” emissions (from the production and transportation of products and services you purchase) and “downstream” emissions (from your customers when they use and dispose of your product). Examples: methane from cows used to make leather for a shoe company or emissions released from recycling cans for a beer company.

Most disclosure frameworks require companies to report full scope 1 and 2 emissions; some also call for companies to start reporting scope 3 emissions.

02 The cascade effect

Most regulators are starting with major portfolios and the largest companies. Why? A natural cascade effect. If investors need to report on carbon within their portfolios, they'll ask the companies they invest in for their data. And large companies will then need this data from their suppliers.

Most rules are designed to give medium-sized companies a grace period where they start by reporting scope 1-2 emissions (which are scope 3 for the larger companies upstream of them).

03 Regulation consolidation

Until now, climate disclosure frameworks have called for different data, organized differently—creating significant overhead for companies trying to meet multiple requirements. Now, regulators are working to align their programs so that disclosures can take on similar formats across jurisdictions. While each country or bloc may add its own specifics, there is movement towards a common language between requirements.

Companies will be collecting enormous amounts of data on emissions, risks, plans, and progress that they'll need to publish in multiple places in different packages. The public-facing outlets for these reports will include, at a minimum, major annual financial reports along with consumer-facing websites.

04 Consumer labeling

The endpoint of many of these programs is creating the climate equivalent of nutrition labels. Physical and financial products alike will need to come with at-a-glance breakdowns of their sustainability characteristics—including associated emissions. While this will happen at different speeds in different regions, it's likely that products across the developed world will eventually be expected to have these labels—often supported by more in-depth disclosures.

Sustainability labels*

ESG equivalent of nutrition labels for financial products

Qualifiers	
Have a sustainability objective	1
Define how the product's investment policy and strategy supports the objective	2
List its relevant KPIs	3
Outline its relevant use of resources and governance	4
Articulate its view of investor stewardship	5
Disclose any "unexpected investments" that consumers are likely to view as inconsistent with its sustainability objective	6

Labels

- Sustainable focus
- Sustainable improvers
- Sustainable impact

*As proposed by the UK financial regulator in 2022

Three essential climate disclosure acronyms

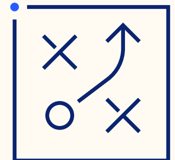
The climate space is full of acronyms. These three are important to know, since each plays a foundational role in the climate disclosure landscape.

TCFD

The Task Force on Climate-related Financial Disclosures

To promote global consistency in voluntary reporting, the Financial Stability Board—a UN-style body for global financial policy—created TCFD and tasked it with establishing a global baseline for climate disclosures. TCFD released its standard in 2017: a set of 11 questions spread across four major "pillars" that guide filers to ensure their disclosures go far enough. Though intended for voluntary filing, TCFD's standard was widely adopted by the first wave of national and regional mandatory disclosure programs.

GOVERNANCE
How is climate being prioritized throughout the organization?



STRATEGY
What is being done about known risks and consequences?

RISK MANAGEMENT
What is being done to flag and respond to new risks?

METRICS & TARGETS
What concrete goals are being worked towards?

ISSB

The International Sustainability Standards Board

If TCFD was the backbone of the first generation of climate disclosure programs, ISSB plays a similar role in this next iteration. It takes pillars and creates a general framework, which can be applied to other sustainability topics like water, waste, and biodiversity—while also asking for some additional data and analyses on climate items. Of these environmental standards, today only S1 General disclosures and S2 (Climate standard) have been published.

Most other global standards and frameworks have one of three relationships with ISSB:

Formally consolidating with ISSB. Factoring in recent mergers between some of these frameworks, this now includes the Value Reporting Foundation, which previously rolled together the Sustainability Accounting Standards Board, the International Integrated Reporting Council, and the Climate Disclosure Standards Board.

Collaborating with ISSB to align some climate-related disclosures. This includes the two major voluntary programs, GRI and CDP, along with most of the national and regional regulatory programs we'll cover here. The idea is that these programs, when they ask for climate-related data, should ask for similar data in a similar way.

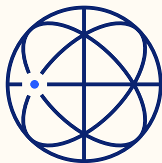
TCFD remains a foundation for ISSB, where ISSB covers similar disclosures while going further. Filing your TCFD report will thus get you part way in preparing for ISSB.

SBTi

The Science Based Targets initiative

SBTi works backwards from the emissions reductions we'll need in order to hit major goals (like the Paris Agreement's 1.5°C) and both sets guidelines for industries—i.e., their fair share of reductions—and validates targets submitted by companies. Their requirements have real teeth: companies must consider all emissions and reduce them deeply. Nearly 1,000 companies—with more than 1 billion[1] tonnes of CO_2e, or 2% of the world's total—have set their own science-based targets (or SBTs).

Many national and regional programs are likely to gradually require SBTs, where companies will be required to ensure their emissions reduction targets go far enough.



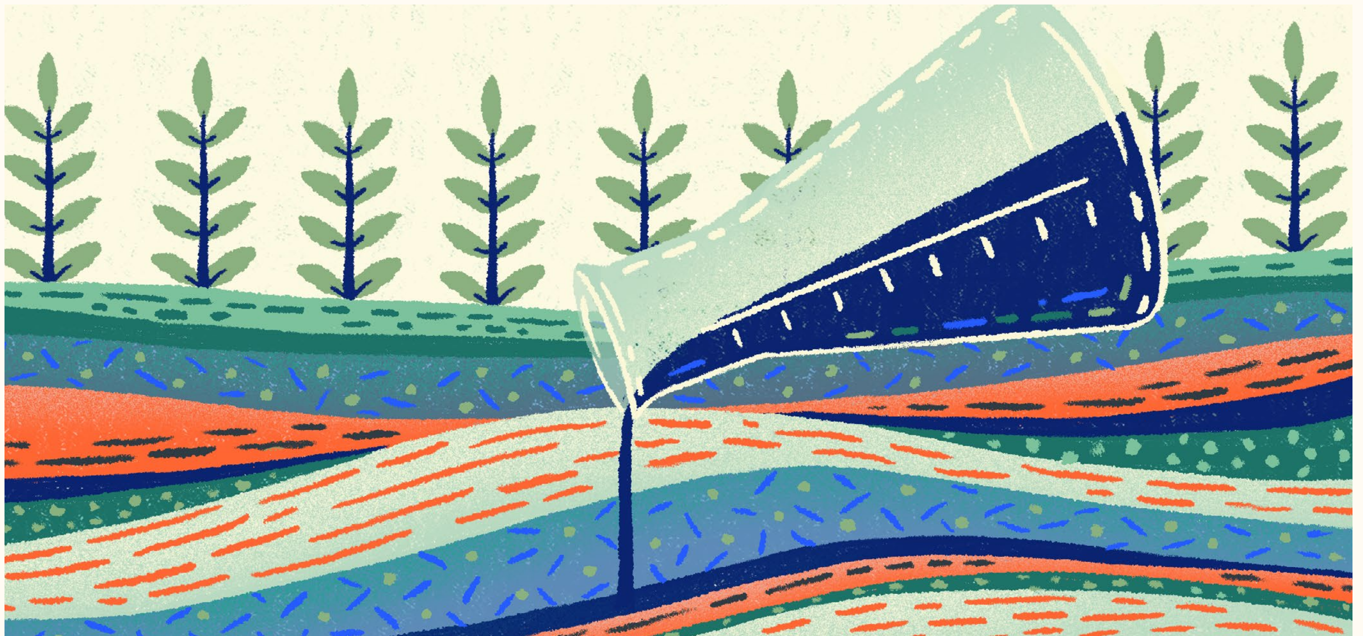
PLANETARY LEVEL
The best science on needed emissions reductions

INDUSTRY LEVEL
Translation into sector-level targets

COMPANY LEVEL
Committing to eliminating your fair share

[1] CO_2e stands for carbon dioxide equivalent. The "e" is because, while carbon dioxide is the most common greenhouse gas, it's not the only one. Methane from cows, nitrous oxide from fertilizers, and dozens of other gases also cause global warming. Scientists convert these gases into measures equivalent to a tonne of carbon dioxide for consistent scorekeeping.

Mandatory reporting requirements for companies



Turning now to the mandatory disclosure programs, we'll begin with those affecting companies operating in the European Union, followed by the United Kingdom and United States. (While we won't be covering other jurisdictions here, most are expected to adopt similarly focused climate disclosure rules that will be adjusted to reflect their national or regional context.)

The EU has been a leader in mandating disclosures. In the wake of Brexit, the UK is transitioning towards its own new master programs. The US has followed with its own climate disclosure rules, with an initial focus on public companies and large federal contractors. Legislatures in individual states like California and New York have either already finalized, or are expected to pass, their own requirements that will additionally target large private companies.

In the EU

THE CSRD

The Corporate Sustainability Reporting Directive

THE EU

THE CSRD

As part of the EU's push for robust environmental action, they've replaced their legacy ESG reporting program, NFRD, with the CSRD. This switch is expected to roughly quadruple the number of covered organizations to over 50,000 companies—many of which will be required to report their full carbon emissions for the first time.

Though the first filing dates won't be any earlier than 2025 (on 2024 data), investors are likely to begin asking for much of this data in 2024 to satisfy their own new reporting obligations. CSRD significantly raises the bar for robustness in ESG reporting, making it crucial that companies prepare by setting clear climate goals and building out audit-ready reporting infrastructure.

Covered organizations

The CSRD will apply to all EU-based non-microcap public companies, alongside all EU-based private organizations considered to be "large"—i.e., that have two or more of (1) 250+ employees, (2) €50M+ annual revenues, (3) €25M+ balance sheet.

If a non-EU parent has €150M+ in annual EU revenues, with at least one branch or subsidiary where: (1) the branch has €40M+ in annual EU revenues, (2) the subsidiary is either EU-listed or meets the large criteria above, then the firm will need to file a CSRD report as part of their wider EU reporting.

What CSRD asks for

While the CSRD is built atop the TCFD framework, it covers additional sustainability categories beyond just climate impact—like pollution, water, and biodiversity. It also gets far more specific. Filers must start with a double materiality assessment: assessing their operational environmental impact as well as a changing climate's impact to their operations.

Where filers find that climate change is material for them, this assessment must then be expanded to include detailed commentary on:

- The organization's physical and transition climate risks—time horizons of 1 year, 1-5 years, and 5+ years—as well as the potential financial effects of these risks.

- The organization's exposure to activities related to the use of coal, oil, and gas.
- Any use of compensation schemes to drive increased sustainability.
- Any actions undertaken to "prevent, mitigate, remediate, or bring an end to" actual or potential negative sustainability impacts—all the way down through the value chain.

This commentary must also be paired with six metric and target-based disclosures, including information on:

- Energy consumption and greenhouse gas emissions totals, including scope 3 emissions from suppliers.
- Intensity ratios (i.e., relativizing absolute emission and consumption totals by comparing them against metrics like revenue).
- The amount of funding provided for mitigation projects (i.e., carbon credits purchased).

Here again, what's unique to the CSRD are the levels of detail and assurance required. For example, filers will be required to include a statement outlining how their targets are based on "conclusive scientific evidence." They'll also need to describe the relevant expertise of the managers, boards, and partners leading their sustainability efforts.

Timeline

The rules are now substantially final. The EU Parliament and EU Council have both signed off on the program, and the CSRD became law on January 5, 2023. More detailed reporting standards are close to being finalized, whilst sector-specific requirements for the most "high impact" (i.e., carbon intensive) sectors will be consulted on and finalized over the course of the next few years.

How and when to report

CSRD disclosures will require auditing, and the formatting needs to be machine readable so submissions can be aggregated into a single EU-wide database. While some specifics are still being ironed out, each filing will be a clearly identifiable section within a larger existing annual report that combines financial and non-financial information.

Organizations already reporting under NFRD will need to submit their first CSRD filing in 2025, covering 2024 data. Newly eligible companies that didn't have a prior NFRD obligation can file in 2026, or in 2027 if they're a publicly listed small or medium-sized enterprise (SME). Non-EU firms caught in scope must report in 2029. Crucially, though, investors and other stakeholders are likely to ask for many of these inputs far in advance of those dates to satisfy their own enhanced disclosure obligations under related programs.

Complementary sector-specific programs

In parallel with the CSRD, the EU has developed a suite of complementary programs to target high-impact sectors (though these rules are expected to gradually apply to larger sections of the economy). One of their first targets: fashion. Being responsible for as much as 10% of global carbon emissions, apparel companies will soon be required to label their products with unprecedented climate clarity—covering raw materials all the way through final disposal. Other high-emitting industries will see similar requirements.

The big ideas

Consumer empowerment: EU regulators want to ensure that sustainability information is so accurate and accessible that shoppers can factor the full climate impact of a new pair of jeans as easily as they can its fit or price—based on hard data, not fuzzy claims.

VS.

50% LESS CARBON

25KG OF CO2

Due diligence: It will no longer be enough to artfully claim that supply chains are free from anti-sustainable practices. Companies will have robust requirements for validation and reporting.

VS.

CLAIMS

DATA

These programs include:

The EU's Circular Economy Package (CEP): Spanning multiple pieces of legislation, CEP is meant to nudge supply chains towards reduced waste, improved transparency, and more "circularity by design"—where care must be taken to how goods are ultimately disposed of. Taken together with related initiatives, apparel companies will need to present retail consumers with a "Digital Product Passport" covering key sustainability details—likely including a materials overview, recycling information, and the product's carbon footprint.

Proposal on the Substantiation of Green Claims: Meant to address greenwashing, this draft builds on existing measures to mandate that marketing claims like "net zero," "carbon neutral," or "50% lower emissions" will only be allowed when both specific and substantiated. The proposal will also require any green claims that rely on the use of carbon offsets to be substantiated by methodologies that ensure integrity.

Corporate Sustainability Due Diligence Directive (CSDDD): Roughly 17,000 in-scope companies will need to carry out specific steps to identify, prevent, mitigate, and bring an end to adverse human rights and environmental impacts throughout their supply chains. For a significant number of firms in scope, this is likely to include adopting a plan, demonstrating that the strategy across the value chain is aligned with limiting global warming to a 1.5°C trajectory, along with detailed reporting requirements around emissions and climate risk management.

In the UK

As the United Kingdom slowly brings in disparate programs under a single umbrella, companies will need to adhere to a higher standard of sustainability reporting.

ISSB

International Sustainability Standards Board

THE UK

ISSB

The UK has announced its intention to develop standards for climate disclosure in line with the recently released ISSB framework from the IFRS. The ISSB standards align closely with the TCFD framework. The FCA will initially introduce the ISSB framework to replace its TCFD-based rules for listed companies, and then, over time, other UK rulesets will also change to be based on ISSB.

SECR

Streamlined Energy and Carbon Reporting

THE UK

SECR

This program replaces the former Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. 11,900 large UK organizations must now disclose their electricity usage and greenhouse gas emissions alongside their annual financial reports—many for the first time.

SECR continues the CRC's mission of encouraging more efficient operations, while expanding the reporting scope to ensure companies are taking real action on carbon.

Covered organizations

The new obligations cover all UK quoted companies. They also cover private companies and nonprofits that have two or more of:

- 250+ employees.
- £36M+ annual turnover.
- £18M+ balance sheet.

Reporting as a subsidiary

These thresholds are calculated at a subsidiary level. For groups that contain subsidiaries that would have their own reporting requirement, the group can do a single bulk report that aggregates all the group's data together so long as the subsidiary was part of the group by the end of the relevant financial year. If the subsidiary's financial year ends after that of the parent or group, the latter must use their own financial year as a data cutoff instead.

Subsidiaries with non-UK parents are exempt, as are public sector organizations. Any organizations that consumed less than 40,000 kWh of energy in the last year can also forgo full SECR reporting, but must confirm their total energy usage in their regular annual filings.

What SECR asks for

SECR requirements are different for public and private companies, but at a high level, SECR mandates companies to disclose three metrics and two pieces of commentary:

1. **Total energy consumption:** Most organizations can calculate this by adding their gas and electricity bills. Unquoted organizations and LLPs must also include fuel purchased for all business travel beginning and ending in the UK.
2. **Scope 1 and 2 greenhouse gas (GHG) emissions:** These include all direct emissions from company-controlled infrastructure, and all emissions associated with the purchase of electricity, steam, heat, and cooling. Quoted companies under SECR additionally need to disclose emissions from business travel in rental cars or employee-owned vehicles, where the company is responsible for purchasing the fuel.
3. **An emissions intensity ratio:** To put your emissions in context, they must also be expressed relative to some business activity—e.g., tonnes of CO_2e per dollar of turnover. The chosen ratio (see options in Annex F) must be considered "most appropriate" for your core business activity.

- **Brief commentary on actions taken:** You must list all actions taken in the past year to improve energy efficiency across your infrastructure and operations.
- **Notes on methodology:** You must make it clear how you calculated your consumption, emissions, and intensity ratio.

MANDATORY REPORTING REQUIREMENTS FOR COMPANIES

Metrics 1 and 2 must also include annual totals for the prior reporting year for reference. Quoted companies must disclose metrics 1-3 for their entire global footprints, broken out between UK and non-UK totals.

How to report

Filing requirements are based on organization type:

- For quoted companies, the required information must be included in their annual Director's Report to Companies House. Though, if the details are considered of strategic importance, this filing can be included in their Strategic Report instead.
- LLPs must prepare a standalone "Energy and Carbon Report" covering this information, then have it approved by all members and signed by a designated member before submitting it to Companies House.
- For charitable companies, this information should be included in their Directors' and Trustees' Annual Report.

CRFD

Climate Related Financial Disclosures

THE UK

CRFD

CRFD reporting regime requires covered organizations—including banks and insurance companies—to include eight sustainability-related disclosures each year. These new rules apply to accounting periods starting on or after April 6, 2022.

Note: companies with a UK parent whose CRFD report already covers their operations are exempt from filing a separate report.

What you need to know

CRFD covers the same substance as TCFD, narrowed down to just eight disclosures, each of which references an organization's climate-related risks and opportunities:

- What they are.
- How they're handled at a governance level.
- How they're assessed practically.
- How they're integrated into overall risk management.
- What their actual and potential impacts are on the organization.
- How resilient the organization is in various climate scenarios.
- Which broad targets are used to manage the risks and realize the opportunities.
- Which KPIs are used to assess progress against these targets.

These answers must then be submitted as part of the organization's non-financial and sustainability (NFIS) statement within their Strategic Report, or else via the Energy and Carbon Report section of their standard Annual Report.

While there is no specific requirement to disclose

carbon emissions, all organizations reporting under CRFD will also be reporting under SECR—which already requires scope 1 and 2 emissions. And as the targets and KPIs from questions 7 and 8 will increasingly involve reductions to scope 3 emissions, it's best practice to begin measuring and including all emissions data early.

FCA

TCFD requirement for listed firms

THE UK

FCA

The Financial Conduct Authority (FCA) requires all listed firms to publish a TCFD report each year. Filers should especially note the FCA's latest guidance on expectations for robust reporting.

Standard listed firms

By rule, firms only have to state in their Annual Financial Report whether and where they've shared their TCFD disclosures (preferably in said report). While they have the right to opt out, to only address the disclosures in part, and/or to disclose them elsewhere, the FCA has been clear that these sidesteps now require strong justification—along with a credible plan to get on board.

These disclosures must also now include scope 3 emissions—i.e., from supply chains, in accordance with updated TCFD guidance, unless said emissions are so small as to be "immaterial." This is applicable as of accounting periods beginning on or after January 1, 2022—i.e., for all reports in 2023 and thereafter.

Premium listed firms

The rules here are the same as above, with the exception that the program's effective date was January 1, 2021. All that's changed since is updated guidance from TCFD itself (late 2021)—most notably in the requirement to include all material scope 3 emissions. The FCA is due to consult on strengthening these requirements by the end of 2023 in order to align them with the ISSB standards, and, importantly, require listed firms to have and disclose transition plans (drawing on the TPT's framework, and also removing the current "comply or explain" provision).

ESOS

Energy Savings Opportunity Scheme

THE UK

ESOS

The Energy Savings Opportunity Scheme (ESOS) is a legacy program inherited from the EU that requires an energy audit every four years (next in 2024).

What it requires

Covered organizations must measure and document their total energy consumption across their buildings, industrial processes, and transportation use—along with commentary on:

- Which business areas consumed the most energy.
- How they plan to reduce consumption in those areas.
- What other reductions they considered.
- Who their lead assessor (auditor) and board-level reviewer were.

How it's submitted

There is no set audit format and no submission requirement for any findings. Companies are merely asked to send notice that an audit has been completed, and to keep whatever records they have for potential inspection.

- An organization's eligibility will be determined by its size as of December 31, 2022.
- Reports must cover 12 consecutive months that include the eligibility date.

Where it's going

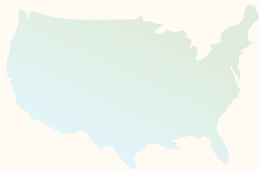
The energy bill has now passed into law. The bill updates ESOS based on the UK's net zero targets and in light of the consultations. It includes powers to: strengthen requirements for audits and make them more standardized; improve the quality of ESOS audits; add a mandatory net zero element to the audits in future phases; and require the publication of high-level recommendations.

There will be a further consultation about extending the scheme to medium-sized enterprises and mandating action to improve energy efficiency, but the bill already provides government with the power to do both of these.

In the US

SEC

Disclosure Rule



THE US

SEC

To help the US catch up to regulators in Europe, the Securities and Exchange Commission (SEC) put forward its own carbon disclosure proposal in March 2022. The final rule is expected to be released in 2024.

But the most important thing for companies to plan for isn't just the specifics of this proposal; it's the trendline. Major national governments are acting in unison, and (as we'll see in the next section) individual US states like New York and California are following close behind. Many growing US companies will have robust climate reporting obligations in multiple jurisdictions as soon as 2024.

Which companies are affected by this proposal?

This proposal affects all public companies with an existing SEC reporting requirement, including all non-US companies with US-traded shares that currently file a Form 20-F. While most private US companies are exempt, those on path to an IPO often elect to begin filing public disclosures in advance—in which case their investors are likely to ask them to include this data. These disclosures will also be part of their eventual IPO registration statements.

What does the proposed rule ask for?

The SEC's proposal is for a TCFD+ filing—to be reported alongside financial results, within a company's annual 10-K report—with focus on three particular areas:

1. Measuring and disclosing climate data

The SEC wants companies to disclose their emissions, plans, and progress in detail, including at least:

- All scope 1 and 2 greenhouse gas emissions—i.e., direct emissions and those from purchasing electricity, heating, and cooling—with any carbon credits listed separately so investors can see total emissions in isolation.
- An intensity factor—i.e., dividing total emissions by a fixed business metric like revenue or number of employees to provide investors with an apples-to-apples figure.
- Any internal carbon price used and the logic used

to calculate it (this price also has to be consistent between internal use and external PR; there can't be two prices).

- Updates on plans and progress against any climate pledges or targets.

Large public companies will also need to include scope 3 emissions—i.e., from their suppliers—if those emissions are considered "material" or if they have a GHG emissions reduction target that includes scope 3 emissions. While the emerging global threshold for materiality is if scope 3 accounts for more than 40% of a product or service's end-to-end emissions, the SEC acknowledges this while also holding that quantitative analysis is not enough on its own. They instead use a well established precedent: any substantial likelihood that a reasonable investor would consider them important when making an investment or voting decision.

For most companies, scope 3 emissions make up the majority of their footprint, making it likely for them to be judged material. To confirm this share for your own operations, the best place to start is with a full-footprint measurement. Scope 3 emissions disclosures are also protected by a legal safe harbor within the SEC rule.

2. Assessing and disclosing climate risks

The upshot: climate risks are financial risks and must be identified and managed with unprecedented rigor.

These risks can be physical (e.g., extreme weather impacts) or transitional (e.g., customer tastes shifting as climate change worsens). When assessing and disclosing these risks, filers must break them down over short-, medium-, and long-term time horizons. They must also disclose actual and potential impacts on their business models, strategies, and outlooks—stretching across their products, physical operations, and even R&D expenditures.

Large public companies also need to spell out the financial implications. First, in narrative form. A freight company, for example, might discuss impairment charges for older equipment that it expects won't pass coming regulatory thresholds. Then, in quantitative form, where line items like revenue, inventory, and debt are matched with projected impacts from these climate risks (for each line item where expected impact is likely to be greater than 1%).

Lastly, these filings must outline the methodology used to identify and assess risks, and detail how they factored dynamics like existing or likely regulations,

Requirement dates:

FILER TYPE	SCOPES 1 & 2 GHG DISCLOSURE COMPLIANCE DATE	LIMITED ASSURANCE	REASONABLE ASSURANCE
Large accelerated filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	Fiscal year 2026 (filed in 2027)
Accelerated filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	Fiscal year 2027 (filed in 2028)

shifts in customer or counterparty preferences, technological changes, etc.

3. Integrating climate thinking

Investors want more than just plans and data; they want evidence that climate action isn't just the product of one isolated team within a company. They want to understand exactly how climate data—really, climate thinking—is incorporated into daily decision-making, especially within the C-suite and the boardroom. This includes the level of board expertise on climate-related risks, and how the board discusses those risks. Companies will also have to show exactly how climate risk is integrated into their wider risk-management processes.

Though the proposed rules here focus on transparency rather than forcing specific actions, they will be a significant measure by which investors themselves judge the quality of disclosures. ESG isn't just a buzzword to them. They know that climate action (or inaction) will soon affect the financial trajectory of every company.

Will climate data require attestation?

Yes, scope 1 and 2 emissions data will require attestation for large filers. The attestation requirement will be phased in, moving first to a limited assurance standard and then to reasonable assurance.

Large filers will have to provide at least limited assurance on their 2024 emissions, and reasonable assurance starting 2026.

Requirement dates:

REGISTRANT TYPE	SCOPE 1 + 2 DISCLOSURE DATE	SCOPE 3 DISCLOSURE DATE
Large accelerated filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2025 (filed in 2026)
Accelerated filer and non-accelerated filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)
Smaller reporting companies	Fiscal year 2025 (filed in 2026)	Exempted

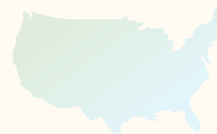
The SEC's most recent rules on who is considered a large or accelerated filer can be found here.

What stage is the proposal at?

The SEC signaled in its last Regulatory Flexibility Agenda that the new rules would be published in October 2023. Although that deadline has now passed, the SEC is still expected to issue the rule in the coming months, though the precise timing is uncertain.

To approve the final rule, the SEC will take a vote at an Open Commission Meeting, which will be broadcast online. As agendas for said meetings are usually published about a week prior, this will tell us when the final rule is imminent.

CALIFORNIA SB 253 & 261



THE US

SB 253 & 261

California's Climate Accountability Package bundles three bills together around some common goals:

standardizing corporate carbon disclosures, aligning public investments with climate goals, and raising the bar on corporate climate action. If these bills pass, they'll compel thousands of companies doing business in California to disclose their emissions and/or climate-related financial risks. Some of these reports would be due as soon as December 2024.

Though these bills focus on companies that do business in the state, they're part of a global movement towards legislation that requires robust climate reporting from all companies.

As the first bill, SB 252, only applies to two state pension funds, our focus here is the Climate Corporate Data Accountability Act (SB 253) and the Climate-Related Financial Risk Act (SB 261).

SB 253

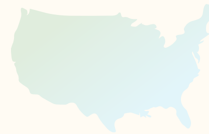
As proposed, all public and private companies with $1B+ in revenue that do business in California will need to disclose their full emissions beginning in 2026 on 2025 data—including scope 3 emissions data from suppliers. This data will need to be independently verified and will be housed on a public digital registry that will enable users to review individual reporting entities.

The bill would also authorize California's Attorney General to bring civil actions against covered companies and to seek civil penalties for violations.

SB 261

All US entities with $500M+ in revenue that do business in California will need to submit annual TCFD reports covering their climate-related financial risks, starting December 2024. (Companies subject to regulation by the California Department of Insurance or that are in the business of insurance in any other state will be excluded.)

FEDERAL CONTRACTORS RULE

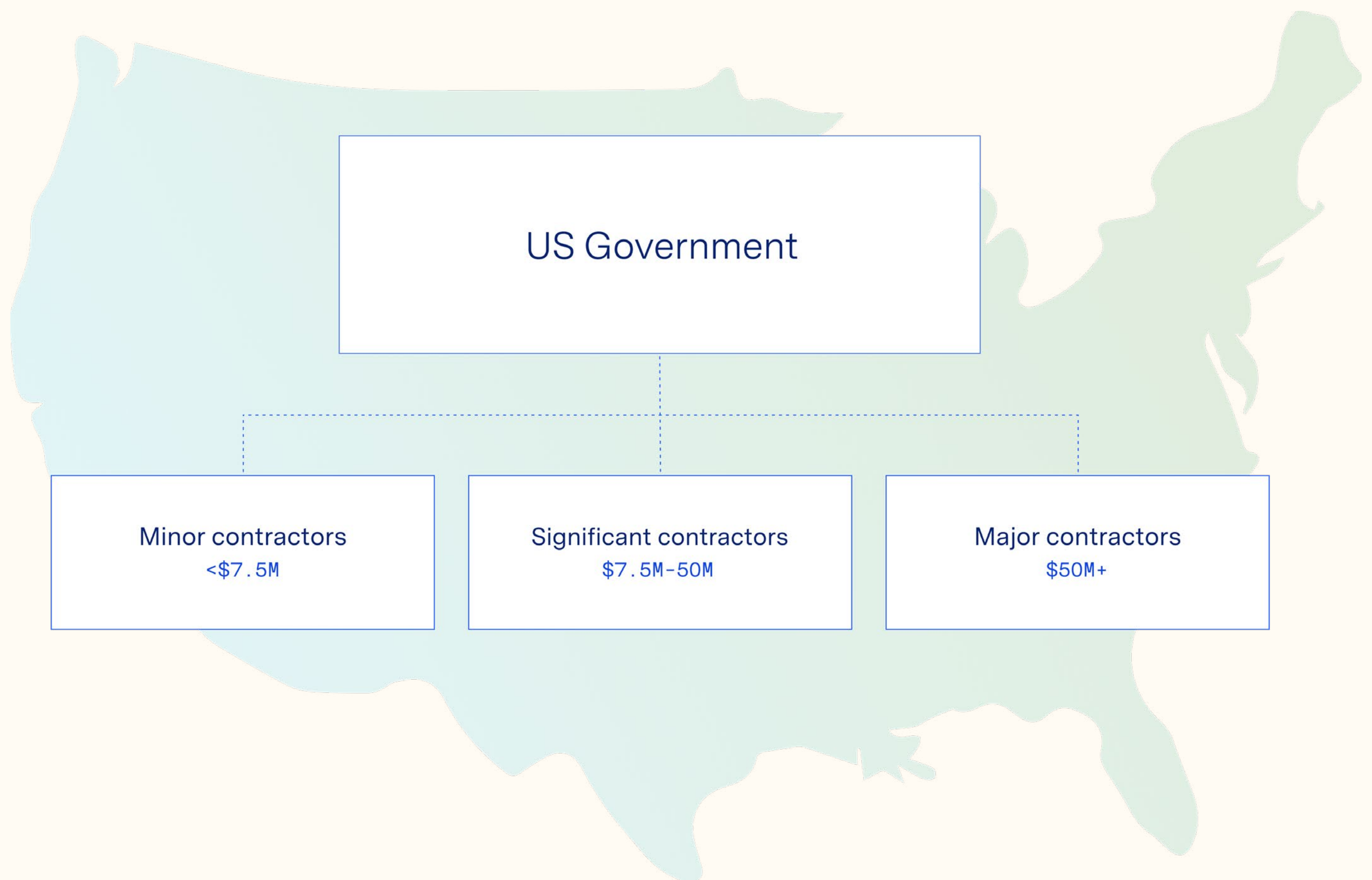


THE US

FEDERAL CONTRACTORS RULE

As part of the Biden Administration's larger sustainability push, they've proposed a new rule that will require most federal contractors to disclose their greenhouse gas emissions—including in some cases those of their own suppliers. Larger contractors will also need to disclose their climate-related risks and set science-based emissions reduction targets.

This means that not just federal contractors, but many of their subcontractors, will need to begin measuring, reporting, and managing their emissions in order to maintain their contracts. The US government is the world's largest purchaser of goods and services, and virtually all companies in their $630B supply chain will be asked for increasing climate transparency—and action.



Covered organizations

The proposal sorts all contractors into three buckets:

1. Minor contractors, with less than $7.5M in annual federal contracts.
2. Significant contractors, with $7.5M – $50M in annual federal contracts.
3. Major contractors, with $50M+ in annual federal contracts.

As it stands, minor contractors will be exempt—along with higher education institutions, nonprofit research entities, and all companies whose federal contracts make up 80% or more of their total annual revenues.

Note though that any company that subcontracts to a major contractor—regardless of their own size or org structure—is likely to have an indirect reporting obligation.

What the proposed rule asks for

The general principle here is that all covered contractors need to disclose their emissions, and major contractors then have to go quite a bit further.

Significant contractors ($7.5 – $50M)

- Must report their scope 1 and 2 emissions data each year, via SAM.gov.

Major contractors ($50M+)

- Must submit their scope 1-3* data each year via CDP, a global clearinghouse for climate-related disclosures.
- Must publish a TCFD-compliant climate risk assessment each year, either also via CDP or on their own website.
- Must set a science-based emissions reduction target via SBTi.

* While only "relevant" scope 3 data is mandatory, no official threshold for relevancy has been set here yet. If they adopt the cutoffs from SBTi, it would be "if they're 40% or more of your overall emissions," which would cover most companies.

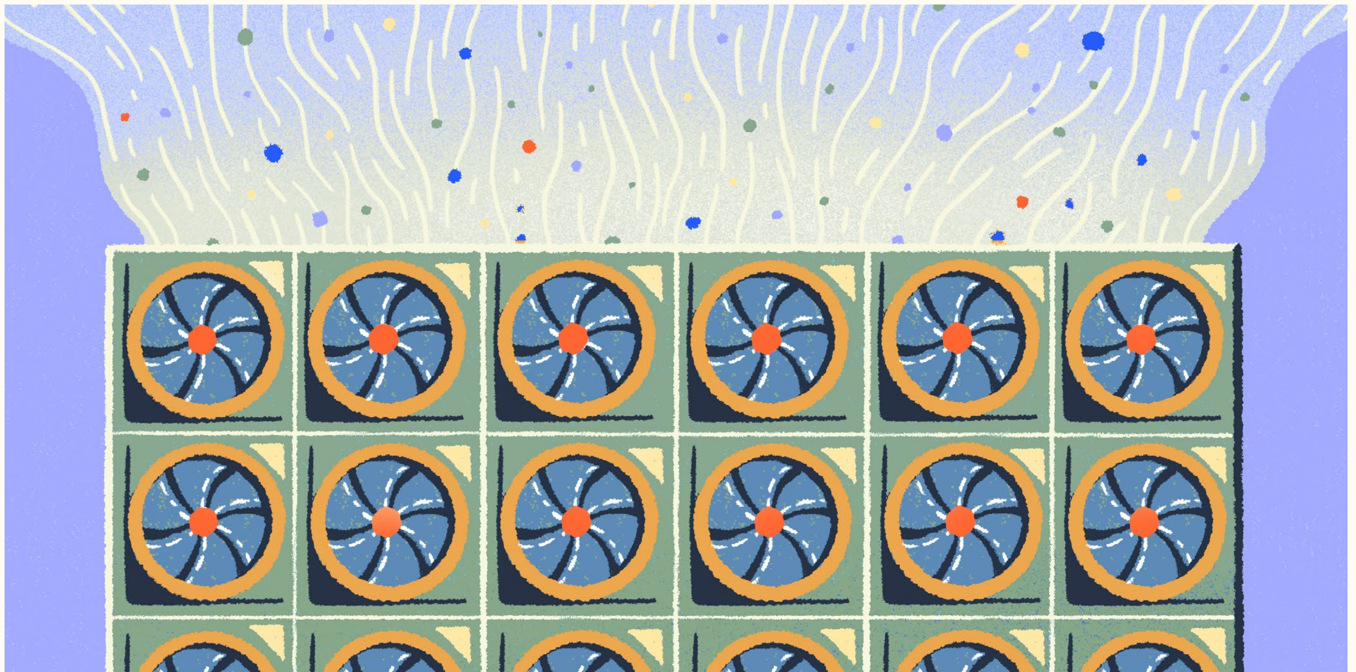
Note that collecting scope 3 data means asking your suppliers—and often, in turn, their suppliers—for their data. Smaller companies especially may have not begun measurement yet, which is why this part of the proposal comes with lead time. It's crucial to begin working with your supply chain ASAP to get this reporting infrastructure in place early.

Timeline

The proposal was open for comments through February 13, 2023. Those comments will then be reviewed by a group of federal agencies, which will in turn send on a modified proposal to Congress—where it's expected to pass by the end of 2023. Blocking this rule would ultimately require opposition from two-thirds of the members of the Senate.

Compliance will begin one year from the date that the final rule appears in the Federal Register, or roughly late 2024 as things stand now. The scope 1-2 disclosure rules will kick in first, with the remainder of the major contractor rules applying an additional year later.

Mandatory reporting requirements for asset managers



As climate change progresses and climate risks turn into real losses, regulators want to ensure that anyone considering buying into broad investment portfolios can easily and precisely understand the climate component of the underlying companies.

The European Union has set the bar here, though the United Kingdom has pushed some rules further, and has taken a firm step in working to mandate at least TCFD-style reporting through their entire economy by 2025—including asset managers.

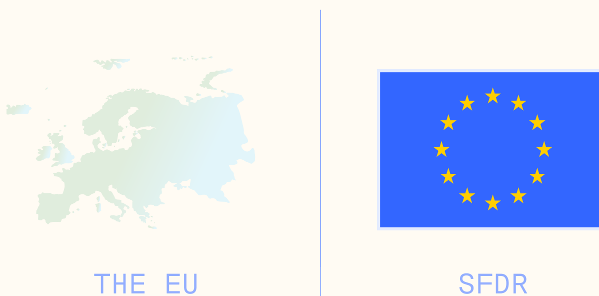
The US has also taken initial action on greenwashing, and is likely to follow on with similar programs—both federally and at a state-by-state level.

Crucially, many global financial firms will soon be reporting into several of these regimes in parallel. While these programs are meant to align on key points—particularly through the ISSB's efforts to harmonize ESG disclosures globally—that harmonization is still in its early days.

In the EU

SFDR

Sustainable Finance Disclosure Regulation



As demand for sustainable financial products grows, investors are increasingly looking for data on how investments actually promote sustainability—and on how climate risks may impact their value. The EU's mandatory Sustainable Finance Disclosure Regulation (SFDR) program directs financial firms and advisors on how to offer this transparency.

The latest SFDR technical standards, released April 6, 2022, demand far more data than the first wave of requirements—including detailed emissions data from portfolio companies, many of which are still measuring their carbon footprints for the first time.

As these new rules took effect January 1, 2023 (applicable to June 30, 2023 filings), most filers need to begin collecting this additional data ASAP.

Covered organizations

SFDR covers all EU investment management firms and advisors, including asset managers, banks, and insurers—along with all non-EU firms that target the EU market through the Alternative Investment Fund Managers (AIFM) Directive.

The specific rules, however, vary based on three broad groupings:

- Large financial market participants (FMPs)—e.g., banks, asset managers, investment firms, insurance companies, venture capital firms, pension funds, etc.
- Smaller FMPs with fewer than 500 employees (counted at a group level, including headcount from any non-EU entities).
- Financial advisors—whether individuals, entities, or intermediaries—who guide EU consumers on investment, insurance, and pension products.

We'll get into how the rules vary by group as we discuss the rules in turn.

SFDR's relationship with the EU Taxonomy for sustainable activities

SFDR is a twin project with the EU's new Green Taxonomy: an in-progress rulebook that determines which economic and business activities officially count as green.

Under SFDR, a covered organization that labels or markets a financial product as sustainable must disclose the degree to which the underlying investments meet this taxonomy's minimum qualifications—i.e., how green they really are.

Combined with the EU's soon-coming corporate disclosure program (the CSRD), companies will face strong pressures to align their activities with this taxonomy—and sustainability-focused funds will need to report on the collective progress of their portfolio companies.

A great first step for fund managers is to commission a footprint measurement to identify where their portfolio companies' carbon hotspots are.

What SFDR asks for

In the long run, SFDR is about creating the sustainability equivalent of nutrition labels for financial products—which will outline two things for investors:

- Sustainability risks, or how a changing climate will affect the underlying investments.
- Principal Adverse Impacts (PAI), or how the investments will impact the world/climate.

The EU is pushing towards this by gradually increasing the stringency of their minimum disclosure requirements—which must now be made at two "levels:"

- At an entity level (applies to FMPs*, but not financial advisors).
- At an individual product level (applies to both).

* While all FMPs must provide product-level disclosures, those with 500 or fewer employees can opt out of entity-level disclosures if they explain their reasoning in writing.

Entity-level disclosures

Covered FMPs need to regularly disclose four things:

- How they factor sustainability risks when making investment decisions—e.g., when it happens in the selection process, who's responsible for deciding, and which specific climate-risk considerations or benchmarks might disqualify an investment.
- If and how their remuneration policies reflect the above approach.
- How they factor a specific list of 14 Principal Adverse Impacts (PAI)—covering both the environment and broader social issues.
- How they approach due diligence for the above, including which recognized codes and standards they're referencing in their self-evaluations.

Of the core 14 PAI that each FMP must cover, six are climate related (precise formulas here):

1. Scope 1-3 GHG emissions—i.e., their own emissions plus a share of total emissions from each portfolio company (proportional to the FMP's investment in them).
2. Their carbon footprint—i.e., their total scope 1-3 GHG emissions divided by the current value of all investments.
3. The aggregate GHG intensity of portfolio company and other asset emissions—i.e., the emissions of each company relativized to a financial metric like revenue.
4. The share of investments in fossil fuel companies.

5. The share of energy produced or consumed by the portfolio companies that came from renewable vs. non-renewable sources.
6. Energy consumption (per million euros of portfolio company revenue) for each high-impact climate sector.

The new rules also require the disclosure of at least one additional non-core PAI indicator from each of the environmental and social categories. The Commission has provided additional guidance that the additional non-core PAI indicator should be based on materiality. For example, if material, an impactful climate-related option is "how many of your portfolio companies don't have carbon emissions reductions initiatives yet?"—which spurs lagging companies to take their first step towards real action.

Product-level disclosures

The rules ask that all financial products be clearly bucketed into one of three categories:

- Article 6 products don't have sustainability* as a core objective, nor is sustainability a screening consideration during investment selection.
- Article 8 ("light green") products also don't have sustainability as a core objective, but some investments are screened for sustainable characteristics* and marketed accordingly.
- Article 9 ("dark green") products have sustainability as a core objective, and all component investments are marketed as sustainable.*

* Once the Taxonomy is complete, the definition of "sustainability" is likely to be increasingly linked to the Taxonomy. For now, products must just disclose how aligned they are with the taxonomy's finished sections.

As we'll cover in the next section, each product's disclosure obligations correspond to its strongest ESG marketing claims. Article 9 products claim the most impact, and thus have the highest bar to clear. Article 6 products aren't considered green, and require no disclosures.

How and where to file

SFDR disclosures fall in two categories:

- Pre-contractual disclosures are to be provided to potential investors, and must include both entity- and product-level sections. They're meant to be forward-looking, focusing on sustainability objectives and expected performance.
- Periodic disclosures are for product-level disclosures only, and serve as report cards on how each product is doing relative to its goals.

Both types of disclosures must be summarized and uploaded to a prominent place on the filer's website. These filings must be dated and must include the next anticipated publication date.

Disclosure templates: entity level (pre-contractual only)

1. How do you factor in sustainability risks when making investment decisions?
2. Do your remuneration policies reflect the above approach? If so, how?
3. How do you factor the 14 core Principal Adverse Impacts (PAI)?
4. How do you factor two additional PAI (one environmental, one social)?
5. How do you approach due diligence for the above?

Note that entity-level disclosures must address all 14 core PAI, while product-level disclosures are free to leave out the carbon-related PAI. But many investors want to see at least scope 1-3 emissions data on a product-by-product basis, and we strongly encourage including it.

DISCLOSURE	PRE-CONTRACTUAL	PERIODIC
Entity-level disclosure	√	X
Article 8 product disclosure	√	√
Article 9 product disclosure	√	√

Product level (pre-contractual)

Answer the left or right column based on product classification:

ARTICLE 8	ARTICLE 9
1. Which generic environmental and/or social characteristics does this product promote?	1. Which specific sustainable investment objective does this product promote?

Product level (periodic)

The following questions apply to both Article 8 and Article 9 classified products:

ARTICLE 8 & ARTICLE 9
2. Which reference benchmark(s) (if any) will determine whether this product aligns with its characteristic or objective?
3. How does this product consider PAI?
4. What's this product's investment strategy?
5. What percentage of this product is reserved for investments that align with at least one EU Taxonomy objective?
6. Where can I find more product-specific information online?

Here Article 8 and 9 disclosures cover the same questions:

Since your last report…

1. How did this product perform compared to its reference benchmark?

2. How did this product perform on its PAI considerations vs. the last five years?

3. Which actions were taken to improve performance?

4. What were this product's top 15 investments (by total value)?

5. What proportion of investments aligned with at least one Taxonomy objective?

Getting started

SFDR filings are based on calendar years, where each year's data must be shared by June 30 of the following year—e.g., 2022 data by June 30, 2023. All PAI-related metrics must be calculated at the end of each calendar quarter and then averaged for each annual report.

The ruleset covered here went into effect January 1, 2023.

In the UK

Note that the Climate Related Financial Disclosures (CRFD) program covered in the Companies section above also applies to banks and insurance companies.

FCA FOR ASSET MANAGERS & OWNERS

THE UK

FCA

As investors seek to align their assets with the fight against climate change, more firms are offering ESG-based investment products. The UK's Financial Conduct Authority (FCA) wants to ensure that all such ESG claims are matched with real impact, and has introduced rules requiring large asset managers and owners—including life insurers and FCA-regulated pension providers—to offer full transparency on the climate aspects of their portfolios.

Covered firms were required to make their first disclosures as soon as June 30, 2023, using the best practices established by the Task Force on Climate-related Financial Disclosures (TCFD).

Covered organizations and deadlines

The FCA's criteria are based on where actual assets are managed or administered, not where the client, product, or portfolio may be formally domiciled. Their initial focus is on the largest of these firms, including:

- Asset managers with £50B+ in AUM (as measured here).
- Asset owners with £25B+ in AUM (as measured using a three year rolling average).

Firms captured in this first wave must report by June 30, 2023 on their 2022 calendar year holdings. This annual filing date was chosen to coincide with the EU's SFDR calendar, as many filers will report into both programs.

A second wave will then follow, covering any asset manager or asset owner with £5B+ in AUM—measured using a three-year rolling average—who must file by June 30, 2024 on 2023 holdings (though they're encouraged to consider doing so in 2023 as well). Once they've all filed, the program will have captured roughly 98% of the UK market and ~£12.1T in assets.

Firms not yet in scope

While the FCA's first focus is on the largest asset firms, they were clear in their latest supervisory strategy memo that they want to soon see TCFD reporting from additional firms—including those in private equity and venture capital. The FCA intends for TCFD reports to gradually cover the full range of asset management activities conducted in the UK. Filing early—or at least beginning with internal reporting—is beneficial to all investment firms. TCFD disclosures are ultimately a forcing mechanism that helps firms and portfolio companies evaluate how well climate thinking has been integrated across their governance and operational structures. Starting this self-evaluation early helps filers identify and manage both carbon hotspots and climate blindspots—which offers substantial risk-management benefits.

What the rules ask for

Covered firms must make two types of annual TCFD disclosures: one product-level report covering the firm itself, and one report for each product offered.

Entity-level reports

These cover how the firm manages their climate risks and opportunities on behalf of clients and consumers, and must include the total emissions across all three greenhouse gas accounting scopes for the firm's underlying assets. These are a firm's "financed emissions," the fair shares of emissions from portfolio companies (calculated using these formulas).

While scope 3 emissions don't need to be disclosed until 2024—i.e., on 2023 holdings—firms are encouraged to begin measuring and managing them early.

Each entity-level report must be published in a prominent place on the firm's website on or before June 30 for each filing year.

Product-level reports

Each individual product needs its own TCFD-style report, which must cover five key climate metrics:

1. Scope 1 and 2 emissions.
2. Scope 3 emissions.
3. Total carbon emissions.
4. Total carbon footprint.
5. Weighted-average carbon intensity (i.e., emissions relative to asset value).

Each report must also cover:

- Historical comparisons for the data points above (starting on a firm's second year of filings).
- Commentary on any discrepancies between how the firm approaches governance, strategy, or risk management for the covered product vs. their entity-level approach.

Firms must also provide product-level scenario analyses in a way that's slightly different from the normal TCFD guidelines. The FCA asks firms to disclose the physical and transitional risks of climate change on assets in three specific scenarios:

- "An orderly transition," where climate policies are introduced in a timely manner and global warming is kept below 2°C by 2050.

- “A disorderly transition,” where climate policies are delayed and sharper emissions reductions become required at higher costs and with greater physical risks.
- “A hothouse world,” where only current policies enter effect and severe disruption ensues with high physical risks and severe social and economic disruption.

For each of these scenarios, firms are expected to provide a qualitative description of the expected impact of climate change on their assets, including detail on the most significant drivers of impact. They must also provide some amount of quantitative analysis where practical, especially where a product or portfolio has high exposure to a carbon-intensive sector.

Where these reports need to be filed depends on the type of firm in question and on client requests. A full summary of requirements can be found here.

Dealing with assumptions

The FCA has acknowledged that there may be cases—such as scenario analysis or measuring emissions for more complex asset classes—where it’s not possible to calculate precise, decision-useful climate metrics. Wherever this is the case, firms are required to explain the steps they took to fill the data gaps—including any proxies or assumptions.
By beginning to collect this data now, firms can increase their own risk management while also sparking wide-scale improvements to both data coverage and methodologies.

TPT

Transition Plan Taskforce

THE UK

TPT

Global regulators are converging on shared goals for climate disclosure. Publicly reporting greenhouse gas emissions and climate risks is now the baseline, and the next step for many companies will be to develop and publicly disclose a transition plan to explain how they will achieve their decarbonization targets. Transition plans are required in current and upcoming climate regulation in the EU, UK, and US.

In the UK, the government created a Transition Plan Taskforce (TPT) to develop their own framework for transition plans. The framework launched in early October 2023, and is broadly expected to be adopted into UK climate regulations as part of the upcoming transition to ISSB in the summer of 2024.

The UK TPT framework will challenge companies to define how they will achieve their decarbonization goals and prepare for the transition to a lower-carbon economy. Defining this plan will be a cross-functional effort, and organizations will need to work across teams to embed their climate transition plan into their business strategy, as they would to implement any other sweeping shifts to the business model.

SDR FOR UK ASSET MANAGERS & OWNERS

In late 2022, the UK government released its first set of proposals for its new Sustainability Disclosure Requirements (SDR) regime, starting with a suite of five proposed rules for UK-regulated asset managers. Taken together, these proposals require all UK financial products marketed with words like "sustainable" to be backed by real action. Those actions must be summarized for consumers via consistent, easily-parsed, easily-located disclosures.

Crucially, this means that the firms creating financial products will soon be approaching the companies that make up their portfolios and asking for their climate and sustainability data.

These proposals are just the first wave of a larger push to minimize greenwashing and promote meaningful sustainability across the British economy. Future waves are expected to strengthen these requirements and to include rules for UK companies more broadly, as SDR begins to slowly consolidate most existing UK sustainability disclosures initiatives.

Covered organizations

The proposed rules cover all investment funds administered by UK-regulated asset managers and distributors of financial products. Unlike similar programs, these proposals apply to all covered firms regardless of size—with one limited exception in Proposal #3 below.

The UK government has also signaled its intent to gradually expand the SDR regime to include pension products, listed issuers, and overseas products marketed into the UK.

The five proposed rules

1. Sustainability labels
2. Customer-facing disclosures
3. Detailed disclosures
4. Naming & marketing rules
5. Requirements for distributors

1. Sustainability labels

The core idea here is creating the ESG equivalent of nutrition labels for financial products, giving potential buyers granular context on whether and how the underlying investments actually promote greater sustainability. While the EU's SFDR regime does something similar, one of its most popular labels ("Article 8") has been criticized for loose criteria that make impact vague. The UK has opted towards making sure buyers can shop by the aspects of sustainability that are important to them, backed by clear objectives and meaningful data.

To qualify for any of the three available SDR labels, a financial product must (1) have a sustainability objective, (2) define how its investment policy and strategy support the objective, (3) list its relevant KPIs, (4) outline its relevant use of resources and governance, (5) articulate its view of investor stewardship, and (6) disclose any "unexpected investments" that consumers are likely to view as inconsistent with its sustainability objective.

- Label 1: "sustainable focus." Products where at least 70% of underlying investments meet "credible" ESG standards. The UK's Green Taxonomy, once finished, is likely to be one such standard. Alternative standards are also still being discussed.
- Label 2: "sustainable improvers." Investments that may not meet credible ESG standards today, but that are on a clear course towards greater sustainability. 100% of included investments must have a demonstrable pathway there, including KPIs and a progress tracker. Each covered product must also disclose its "escalation triggers," or the steps it will take if progress doesn't come—all the way up to potential divestment.
- Label 3: "sustainable impact." These products must have an objective that contributes towards solving an environmental or social problem—i.e., a sustainability ambition that's clearly significant. These products must also have a divestment plan for any assets that fail that ambition.

While products aren't required to have a label, all will still be subject to Proposal #4 below, which restricts them from otherwise suggesting sustainability in their names or marketing.

2. Customer-facing disclosures

While financial products may be sold without an SDR label, all products—regardless of whether they're marketed as sustainable—will need to come with easily-understood disclosures that outline: (1) the product's sustainability objective, if it has one, (2) how it performs against that objective, and (3) how its asset selection factors sustainability, if it does.

While the requirements will be softer at first for products that don't have an SDR label, this is likely to change over time.

3. Detailed disclosures

As the disclosures from Proposal #2 are intended to be parsed at a glance, the UK is also set to require more comprehensive disclosures to be made available covering additional details like how firms are managing sustainability-related risks and opportunities.

The more advanced disclosures fall into three categories—the second and third of which only apply to financial products that have SDR labels.

Category #1: entity-level reports

Covered firms must publish a report covering the firm as a whole, using an extended version of TCFD that covers broader sustainability-related disclosures. (The ISSB's new standards will likely supplant TCFD as the basis here.) This report must also cover the firm's "financed emissions"—i.e., their fair share of emissions from portfolio companies. This requirement applies regardless of whether a firm applies for SDR labels for their products. However, firms with under £5B in AUM (calculated on a three-year rolling basis) are currently exempt—the only threshold-based exemption in these new

rules. Firms that offer at least one product with an SDR label must also disclose additional information on governance and resource allocation.

Category #2: pre-contractual product reports

Before selling a financial product, firms are required to provide potential investors with a disclosure that covers key sustainability information in detail—i.e., a more fleshed-out version of the glossier summary required in Proposal #2.

This requirement only applies to products that use an SDR label, or that otherwise advertise having a sustainable investment strategy.

Category #3: progress product reports

To ensure that investors can access up-to-date information on how well financial products are performing against their sustainability objectives, firms must compile and publish progress reports on at least an annual basis—building on the information disclosed in the pre-contractual reports, detailed in a way that meets TCFD (and eventually ISSB) disclosure minimums.

This requirement only applies to products that use an SDR label.

4. Naming and marketing rules

To prevent firms from opting against the rigor of qualifying for an SDR label while still trying to convince customers that its financial products are sustainable, SDR will restrict the language that firms can use in naming and marketing their products.

Products without an SDR label will be prohibited from using the word “sustainability” or any equivalent that implies sustainability characteristics—including at least “ESG,” “environmental,” “climate,” “green,” “net zero,” “impact,” “responsible,” “SDG,” and “Paris-aligned.” In addition, a companion anti-greenwashing rule will require all sustainability claims to be “clear, fair, and not misleading.” This rule will take effect immediately once SDR is finalized, and is likely to be the basis of swift enforcement action.

5. Requirements for distributors

While most of these rules are focused on the firms that create financial products, SDR will also require the firms that distribute these products to display labels prominently and make all consumer-facing disclosures available to potential buyers. If you’re buying a financial product in the UK—no matter from whom—the same data should be readily available in a prominent way.

Timeline

The new rules are expected to be finalized by the end of 2023, and to be phased in as follows:

- The anti-greenwashing rule from Proposal #4 will enter force immediately.
- Most other rules will apply after 12 months.
- The first entity-level disclosures will be due after either 24 months (for firms with £50B+ in assets under management) or 36 months (firms with £5B–£50B).

DWP'S RULES FOR PENSION FUNDS

THE UK

DWP

Under the Department for Work and Pensions (DWP) program, trustees of covered pension funds must publish an annual report that's a slight riff on TCFD.

What it asks for

A core section of the report is "metrics and targets," which requires trustees to calculate:

- The "financed emissions" of their fund—i.e., their proportional share of the emissions from the companies and assets they've invested in. This ought to be calculated using "The Standard" created by the Partnership for Carbon Accounting Financials (PCAF).
- Their emissions intensity, which relativizes absolute emissions by comparing them to the total value of the fund's investments.
- One additional climate change metric (from this list)—the most straight-forward and useful of which is "data quality," or the proportion of the portfolio for which emissions data was included. (Driving this number up to 100% has positive cyclical effects.)

The resulting report must be published on a free-to-access website within seven months of each pension's year end.

Each fund's first compliance date is determined by when they reached certain thresholds in total assets or authorized master trusts (less expected payouts for that accounting year):

- £5B+ on or after March 1, 2020 = their first report must be released within seven months of the end of the first accounting year that began on or after October 1, 2021.
- £1B+ on or after March 1, 2021 = their first report must be released within seven months of the end of the first accounting year that began on or after October 1, 2022.
- £1B+ on or after March 1, 2022 = their first report must be released within seven months of the final day of that accounting year + 366 days.
- DWP has announced consultations for 2024 to evaluate lowering the thresholds to capture smaller funds—which right now have no coming requirement.

If a fund's assets fall below £500M, the trustees must submit a final report for that accounting year. Trustees are also allowed to exclude the scope 3 emissions of their investments in their first reporting year, though they're encouraged to measure and report what they can.

In the US

SEC

Fund Labeling

THE US

SEC

The Securities and Exchange Commission released two proposals covering how US investment firms label and market funds—asking that stronger ESG claims be matched with emissions data to prove that high-carbon assets aren't being greenwashed. In October 2023 the SEC published the final version of the fund names rule. We await the publication of the final fund categorization rule.

Which firms are affected by these proposals?

Any investment company or advisor currently required by the SEC to file one of the following forms and who have ESG-integrated or focused funds: N-1A, N-2, N-CSR, N8B-2, S-6, N-CEN, or ADV Part 2A.

This covers most registered investment funds and some investment advisors.

What do the proposals ask for?

The first proposal covers fund categorization. The core idea: the more central that ESG is to the objectives of the fund, the stronger the disclosure requirements should be. To make this explicit for investors, the SEC wants funds to identify as one of three distinct tiers:

ESG-integrated funds, where ESG qualities are a routine selection factor, but only as one factor among many.

If ESG is a consideration, the fund needs to disclose its methodologies and data sources used in their evaluation. Funds will then be accountable to either consistently evaluate accordingly or remove the ESG labeling.

ESG-focused funds, where ESG qualities are a "significant" or "main" consideration.

- Funds that don't consider greenhouse gas emissions will need to say so explicitly in a prominent place in their disclosures.
- Funds that do consider emissions will need to disclose both their total carbon footprints (mostly scopes 1 and 2; see later section on scope 3) and weighted average carbon intensities (emissions divided by a business metric like revenue) across their portfolios, with any offsets left out. They'll also need to outline their methodologies for including and excluding assets, along with any relevant information on how they've voted on ESG-related proxies.

- A summary of all this information will also need to be published in a standardized table to allow for easy comparison, with links in that table to fuller explanations, e.g.,:

DOES THIS FUND...	YES	NO
Incorporate ESG factors	X	
Screen to exclude non-ESG assets	X	
Screen to include ESG assets	X	
Seek to achieve a specific impact		X
Vote proxies on ESG issues		X
Engage on ESG issues		X

Impact-focused funds, where specific ESG outcomes are the explicit intent of the funds. They'll need to disclose how they measure qualitative and quantitative progress towards those objectives—including relevant emissions data for any environmental goals.

The second proposal covers fund naming. The SEC wants to extend the 1940 "Names Rule" to cover ESG labeling, where any fund that includes a specific type of investment in its name (like ESG) would need to allocate at least 80% of the fund's value accordingly—which for ESG would also require a clear definition of the criteria used.

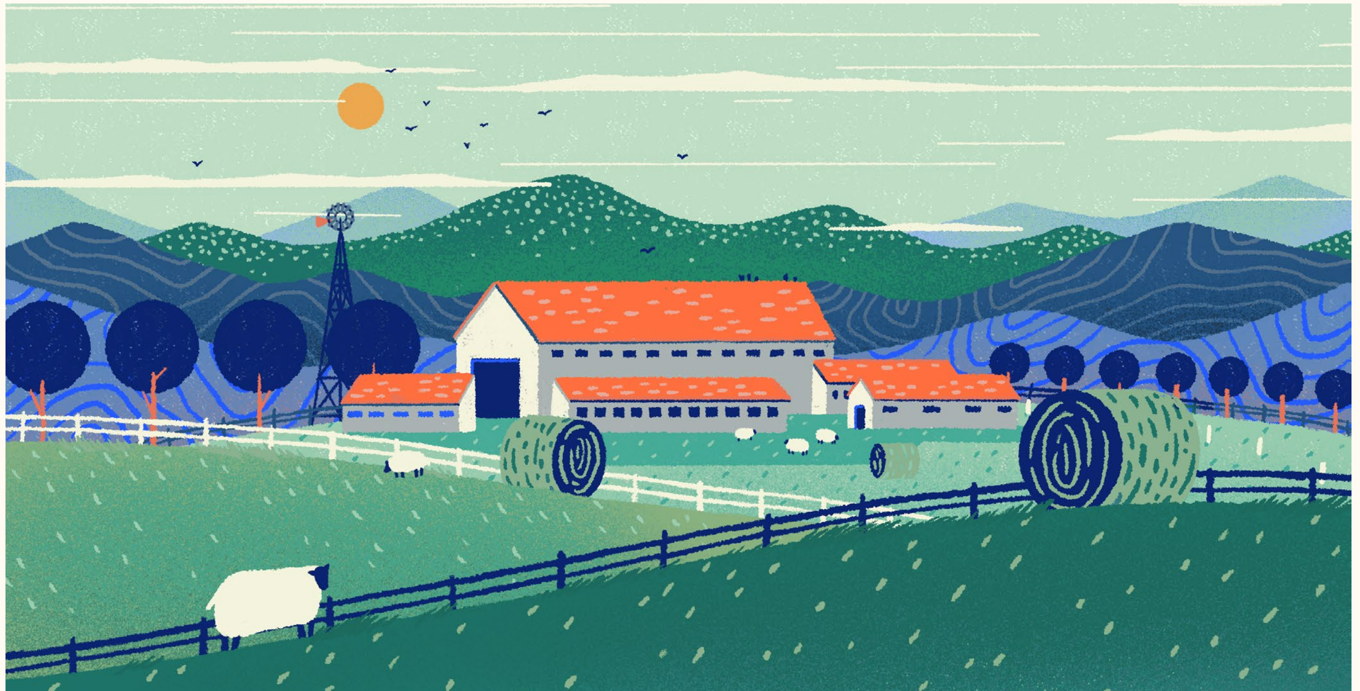
Under both proposals, these disclosures would need to be included in all fund prospectuses, annual reports, and advisor brochures.

How does this relate to similar rules in the EU?

The major difference is that the US still lacks a vital piece of the puzzle: a formal taxonomy that defines which economic activities are officially "green," in the form of specific carbon-intensity benchmarks that activities must fall below to qualify. Unless the US develops its own taxonomy, it will remain up to each investor to grade emissions using their own values.

What about scope 3 emissions?

While excluding emissions data from suppliers gives a very incomplete picture, the SEC will for now only require funds to include scope 3 data for portfolio companies that have already measured and publicly shared this data themselves.



Requirements aside, though, more companies are voluntarily measuring and reporting their scope 3 data knowing that it's the best way to identify carbon hot spots and meaningfully reduce emissions. Asset managers can accelerate decarbonization of their portfolios by commissioning measurements for any companies that haven't done so yet.

Do these disclosures need to be audited first?

While neither proposal calls for any new auditing component, accuracy issues on most disclosure forms are already subject to SEC review.

When should companies begin preparing?

Though the first date to comply with the rules won't be before late 2024, the SEC and other global regulators are taking strong interim action on misstated or omitted ESG-related information. These proposals aren't just about future rules; they're active guidance on how firms and advisors should act today to ensure that their ESG funds are onside of the SEC's current expectations.

Voluntary climate reporting frameworks

When it comes to voluntary reporting standards, which drive the most value for your business? And how can you ensure that you're preparing the most useful data in the most efficient way?

Voluntary reporting can have significant benefits—from increased reputational trust and financial ROI to ensuring you have the right foundation for mandatory disclosures. But most of all it's about demonstrating to investors, customers, and employees that you're using your carbon data to drive real emissions reductions across your operations and supply chains.

All of the frameworks discussed in this section are global, and companies from all over the world file reports with them.

TCFD: the world's voluntary reporting baseline

The TCFD framework, described earlier with our essential acronyms, is a set of 11 disclosure questions that force filers to consider how they've integrated climate thinking into their ongoing practices and governance structures—ensuring that their climate programs go beyond PR and superficial goals.

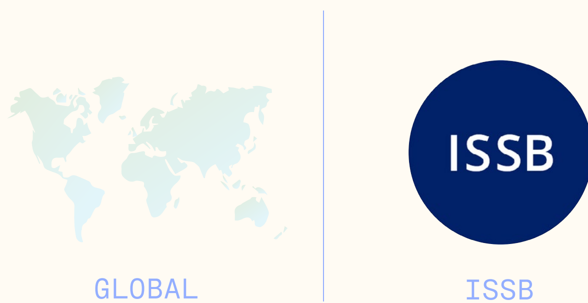
While the major voluntary standards have all produced their own spin on TCFD, preparing for the climate section of each generally means pulling the same data and asking the same questions as for the others—with each just asking for additional detail in one area or another.

Other common voluntary reporting frameworks

There are a handful of important reporting standards, some of which interact with and inform others.

FRAMEWORK	WHY FILE
Carbon Disclosure Program (CDP): A clearinghouse for vetting and aggregating climate disclosures, now covering 2/3 of global market cap.	It reassures stakeholders that your disclosures conform to best practices, and it enables a global view of climate progress.
Global Reporting Initiative (GRI): A broad ESG disclosures standard that covers climate as one key category, with a focus on how each organization is affecting the economy/society at large.	Many boards and investors view GRI filings as a core piece of good governance.
Sustainability Accounting Standards Board (SASB): A sector-specific complement to GRI that focuses more on disclosing financially-material information that's likely to impact an organization's performance.	Many investors and analysts use SASB data to gauge sustainability risks, where good disclosures can allay fears and boost confidence that risks are being managed.

ISSB disclosure: the standard to rule them all



The International Sustainability Standards Board (ISSB) has drafted a new global baseline for sustainability disclosures—which will largely replace TCFD as a meatier alternative that covers more sustainability categories.

ISSB's final standards were published in June 2023. Once published, companies will be able to use them for annual reporting periods beginning on or after January 1, 2024.

Getting more granular, many existing disclosure programs are going to either:

1. Direct filers to do an annual ISSB submission instead of a TCFD report (e.g., many FCA-mandated programs in the UK, CSRD in the EU).
2. Fully merge with ISSB (e.g., IRF, SASB, and CDSB; see joint progress update here).
3. Align with ISSB so that overlapping disclosures should ask for similar data in a similar way (e.g., GRI, CDP, and most mandatory national programs).

While companies already reporting into the above programs should keep doing so for their 2023 filings, those that haven't begun formal reporting should begin preparing well in advance of any new deadlines.

Getting started with voluntary reporting

While smaller companies may not be ready yet for broader and more consuming programs like GRI and SASB, we recommend starting with CDP submissions (due annually). Their disclosures are narrower, but still ensure your organization is embedding climate thinking at every level. It's also the least resource-intensive.

Five steps to successful climate disclosure

Regardless of which program(s) your company is mandated to report to, or decides to voluntarily disclose with, it's crucial to create the right foundation for effective reporting.

1. Know what applies

Identify which mandatory reporting programs apply to your business. Watershed's sustainability assessment tool will automatically identify the most important programs.

2. Start with TCFD

Use TCFD's core questions to audit where your organization needs to improve at incorporating climate thinking—be that risk management, governance, etc. The TCFD framework will also prepare your company for the upcoming transition to ISSB.

3. Measure emissions

Make sure you're measuring the right things—including emissions from your supply chain and often-overlooked business activities like marketing and legal spend.

4. Evaluate pressures

Consider internal and external pressures. What are your peers doing? What do your investors, consumers, or employees expect? Transparently sharing your carbon data through voluntary reports is critical to reaping the benefits and staying competitive.

5. Future-proof

Stay ahead of regulations. As we've seen in the past few years, climate disclosure mandates are only becoming more rigorous. The most successful companies in this new era of climate transparency and action will future-proof their business by looking not just to what's on the horizon in terms of regulatory compliance, but what's just beyond it.

However your business chooses to approach this challenge and seize the opportunities of this new era, Watershed can help. Watershed assists in validating your data, preparing your filings, and ensuring your disclosures are vetted and audit-ready. We'll also help you set targets and take concrete steps to reduce your emissions and mitigate your climate risks.

About Watershed

Watershed is the enterprise climate platform. We work with leading companies like Walmart, Airbnb, Spotify, and Klarna to build end-to-end climate programs with quantifiable results and real impact. Watershed delivers granular, audit-ready carbon measurement; one-click disclosure and reporting; and real emissions reductions—all in a single, intuitive, enterprise-grade software platform. Watershed customers have access to our exclusive marketplace of scientifically vetted, high-additionality carbon removal projects and high-quality offsets; in-house climate and policy expertise; and ongoing support throughout their climate journey.

Learn more at watershed.com

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