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FOR IMMEDIATE RELEASE
March 6, 2024

SEC CLIMATE-RELATED FINANCIAL RISK RULE PROVIDES SOME TRANSPARENCY, FALLS SHORT OF MEETING INVESTOR NEEDS

Public food and agriculture companies to report climate-related financial risks, full supply chain emissions requirement dropped

MINNEAPOLIS—Today, by a 3-2 vote, the U.S. Securities and Exchange Commission (SEC) approved its final rule on the disclosure of climate-related financial expenditures, costs and risks, including those related to greenhouse gas emissions. The rule applies to U.S. companies, including food and agriculture firms, listed for trade on SEC-regulated exchanges. The Institute for Agriculture and Trade Policy (IATP) applauds the SEC for finalizing a mandatory regime for the disclosure of climate-related financial risk, despite the conspicuous absence of a reporting requirement for Scope 3 (supply chain related) emissions.

The SEC designed the proposed rule clearly and persuasively to elicit comprehensive, standardized and comparable information to enable investors to make timely and reasoned investment decisions. The final 886-page rule includes many accommodations to enable successful implementation. The rule also allows company management to determine whether expenditures, losses and Scopes 1 (corporate emissions) and 2 (related to purchased electricity) emissions reporting is material to the company's financial viability. Management denial of materiality could lead to litigation, the least efficient and most costly way to regulatory compliance.

Despite its shortcomings, the rule will provide investors with readily accessible narrative and quantitative information under the SEC's well-established authority to require financially impactful disclosures. Investors will no longer have to rely on a registrant's unverified and incomparable sustainability claims.

"The financial costs and risks posed by climate change are undeniable, particularly to food and agriculture companies. The SEC's 2010 voluntary disclosure regime failed investors and the public. Only climate financial denialists will oppose adding losses and expenditures related to extreme weather events for the past fiscal year and estimated future expenses related to those events to what is included in their audited financial statements," said Steve Suppan, IATP senior policy analyst.

Mandatory Scope 3 reporting is absent from the rule, leaving the door open for future rulemaking on Scope 3 emissions. Scope 3 emissions account for 80-90% of agribusiness and food processors' total emissions and thus are an important indicator of the scale of climate financial risk to be managed. Commodity groups representing agribusiness registrants demanded that the SEC delete Scope 3 reporting from the final rule. The result will be a major gap in climate-related information disclosed by food and agriculture companies.

"According to the National Oceanic and Atmospheric Administration, 28 extreme weather events cost at least $92.9 billion in damages in 2023," said Ben Lilliston, IATP's director of climate and rural strategies. "The longer companies deny that climate change is material to their bottom line, the more vulnerable they are to an acceleration of climate-related damages and costs."

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