Blogs
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The SEC's Climate Rules: Item 1502(c)'s Strategy, Financial Planning and Capital Allocation Considerations from Climate Risks

This is the latest in our series of blogs breaking down the SEC's new climate risk disclosure rules.

We're starting with Regulation S-K Item 1502, Strategy. For the full text, see pages 853 through 856 of the **adopting release.** This is the section of the new rules that requires discussion of climate-related risks, including how these risks impact the business and how the company considers these risks in planning its business and strategy. Items 1502(e) through (g) also have specific disclosure requirements that will be relevant for companies that have adopted transition plans, use scenario analysis or use an internal carbon price.

Today's blog addresses Item 1502(c) of Regulation S-K, which is closely tied to Item 1502(b) (see our **blog** about that Item). Under Item 1502(c), a company is required to disclose whether, as part of its strategy, financial planning, and capital allocation, it considers the material impacts of climate-related risks described in response to Item 15(b).

Here are three key concepts to consider in drafting this strategy, financial planning and capital allocation disclosure:

1. **Closely Tied to Item 1502(b) Disclosure on Material Impacts on Strategy, Business Model and Outlook.** As noted above, this Item is closely tied to 1502(b) and the two Items will likely be addressed together by many companies. This is important disclosure as it will help readers comprehend the extent of a company's planning in response to climate risks. If a company has identified material climate risks in response to Item 1502(a)-(b), it obviously should be planning to address those risks.

2. **Whether – and How – Resources Are Used to Mitigate Climate Risks.** Item 1502(c)(1) requires companies to disclose whether the impact of material climate risks have been integrated into their business models or strategies, including whether – and how – resources are being used to mitigate climate-related

risks.

The adopting release underscores that the reference in the rule to changes to a company's business model is key because it will "provide important information to investors about the effectiveness of the registrant's climate risk management that would otherwise be lost were we to omit this reference." But, the release goes on to note that if a company "does not believe that its business model is or will be materially impacted by climate-related risks, it need not provide the disclosure specified in this rule provision."

Any disclosure about strategy (or business models) may be sensitive for competitive reasons. Strategy disclosure often is purposely vague so that competitors can't glean how a particular company is trying to gain an edge. This new disclosure requirement is broad – and vague – enough that companies should have discretion about the level of detail they want to go into.

3. **How Targets or Transition Plans Relate to Business Models or Strategies.** Item 1502(c)(2) requires companies to disclose how any of their climate risk-related targets or transition plans relate to their business models or strategies. Companies will need to remember when making disclosures under Item 1504 (targets) or Item 1502(e) (transition plans) to address the relationship between targets and transition plans and the company's broader strategy and business model.

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