Blogs
March 23, 2022
Public Chatter

"How Much Is This Gonna Cost Us?" The SEC's Climate Economic Analysis

Following up on **Allison's blog** about 9 things you should know about the SEC's climate rule proposal. The **SEC's proposing release** has no less than 127 pages dedicated to an economic analysis of the rule. That's pages 293 to 420, covering benefits, costs, and effects on efficiency, competition, and capital formation. Here are eight interesting things to note about that analysis:

---

1. The Challenges in Estimating Costs: This statement at the top of page 333 speaks volumes - "In many cases, however, we are unable to reliably quantify these potential benefits and costs." As reflected by the anecdotal evidence based on the experience of a variety of companies described starting on page 373, the actual cost for a particular company will vary widely, partially dependent on where they already stand when it comes to evaluating their emissions and what they already disclose in sustainability reports, etc.

2.Estimated Price Tag for Larger Companies is $640,000 for Year One (Not Counting Third-Party Assurance): As noted on page 373, "For non-SRC registrants, the costs in the first year of compliance are estimated to be $640,000 ($180,000 for internal costs and $460,000 for outside professional costs), while annual costs in subsequent years are estimated to be $530,000 ($150,000 for internal costs and $380,000 for outside professional costs)." That estimate doesn't take into account third-party assurance costs, which are estimated, per page 380, with wide ranges depending on size of company and level of assurance: "For limited assurance, we estimate that accelerated filers will incur costs ranging from $30,000 to $60,000 (with a median of $45,000), while large accelerated filers will incur costs ranging from $75,000 to $145,000 (with a median of $110,000). For reasonable assurance, we estimate that accelerated filers will incur costs ranging from $50,000 to $100,000 (with a median of $75,000), while large accelerated filers will incur costs ranging from $115,000 to $235,000 (with a median of $175,000)."

---

3. Estimated Price Tag for Smaller Companies is $490,000 for Year One: As noted on page 373, "For SRC registrants, the costs in the first year of compliance are estimated to be $490,000 ($140,000 for internal costs and $350,000 for outside professional costs), while annual costs in subsequent years are estimated to be $420,000 ($120,000 for internal costs and $300,000 for outside professional costs)." The SEC proposed that it would not require smaller reporting companies to obtain third-party assurance.

---

4. Scope 3 Emissions Analysis: As mentioned in yesterday's blog, Scope 3 GHG emissions would need to be disclosed only if material to the company - or if the company has set a target or goal related to Scope 3 emissions. The discussion of economic benefits of Scope 3 emissions disclosures starts on page 355. Scope 3 GHG emissions can represent the majority of the carbon footprint for many companies - in some cases, as high as 85% to 95% - but are not measured or disclosed by most companies. Disclosure of Scope 3 emissions data could help investors understand transition risks – and potential disruptions in a company's supply chain, business model and cash flows.

---

5. The Benefits of Standardized Disclosure: By requiring that climate disclosure be "filed" with the SEC (and not wholly outside the SEC filing stream, as most sustainability reports currently are, or "furnished"), there would be enhanced reliability given the increased liability attached. There would be a reduction in investor search costs since the location of such disclosure would be standardized – and the market would benefit from more consistent disclosure, as well as an enhanced comparability by requiring companies to provide disclosures on a common set of qualitative and quantitative climate-related topics. Which all leads to improved liquidity, lower costs of capital, higher company valuations, etc.

---

6. Percentage of Form 10-Ks with Climate Keywords: Starting on page 303, the proposing release has a number of tables that break out how many companies have certain climate-related keywords in their 10-Ks today, broken out by filer size and industries. The industries with the highest usage shouldn't come as a surprise: maritime transportation; electric services; oil & gas; steel manufacturing and rail transportation.

---

7. Types of Current Climate Disclosures: Today, as noted on page 307, climate-related disclosures can be broadly organized into four topics: business impact, emissions, international climate accords, and physical risks. Other disclosure trend surveys are described starting on page 310, including the relative use of third-party disclosure frameworks.

---

8. Use of Third-Party Assurance Today: Page 311 notes that a Governance & Accountability Institute study finds that 35% of Russell 1000, which are virtually all large accelerated filers, obtained third-party assurance for some portion of their sustainability reports in 2020, up from 24% in the year prior. The rate of assurance is concentrated among the larger half of the companies (i.e., the S&P 500 firms). Among the companies that obtained assurance, however, only 3% obtained assurance for the entire report.
