SEC proposes climate-related disclosures: A closer look

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On March 21, 2022, the Securities and Exchange Commission (SEC) voted to propose climate-related disclosure rules, which, if finalized, will be a groundbreaking evolution of the SEC's disclosure regime. Given the magnitude, entities should consider their current climate-related reporting, changes that might be required under the proposed rules, and whether to comment on the proposal.

Executive summary

The SEC's climate disclosure rule proposal requires a domestic or foreign registrant to include in registration statements and periodic reports disclosures addressing:

- How an entity's board and management governs and manages climate-related risks.
- Actual or likely material impacts of climate-related risks on the registrant's business, strategy, and outlook.
- Quantitative measures of the entity's greenhouse gas (GHG) emissions, which, for Scope 1 and 2 emissions of accelerated and large accelerated filers, would be subject to assurance. Scope 3 emissions disclosure is required when material or when included in an entity's GHG emissions reduction commitment or target.
- In the notes to audited financial statements, certain climate-related financial statement metrics and disclosures including:
  - Disaggregated information on a financial statement line-item basis about transition activities and the impact of climate-related events.
  - Information about estimates and assumptions used in the financial statements.
- The entity's climate-related targets and goals, scenario analysis performed, and transition plan, if any.

Some of the proposed disclosures and related assurance requirements would be phased in over time based on filer status and the type of GHG emissions disclosure (that is, Scope 3). A smaller reporting company (SRC), as defined in Regulation S-K, would be exempt from disclosure of Scope 3 GHG emissions.

Comments on the proposal from interested stakeholders were originally due the later of May 20, 2022, (60 days from posting on SEC website) or 30 days from publication in the federal register. On May 9, 2022, the SEC extended the deadline for public comment to June 17, 2022.

Near-term considerations for board directors

- **Responsibility.** Which board members and management members have responsibility for identifying, overseeing, and governing the entity's climate-related risks and opportunities?
- **Strategy.** Does the entity's business strategy incorporate potential impacts of climate-related risks and opportunities?
- **Risk assessment.** Has the entity's overall risk management process incorporated climate-related risks and opportunities, and how are the risks and opportunities monitored?
- **Data.** How does the entity currently capture climate-related data?
- **Climate-related commitments.** What, if any, are the entity's climate-related commitments or targets, and where is the information currently reported?
- **GHG emissions.** Is the entity currently publicly reporting GHG emissions data? If so, does the entity report Scopes 1, 2, and 3? Are Scope 3 emissions material, or does the entity include Scope 3 emissions in any GHG emissions reduction target or goal? Does the entity currently obtain any level of assurance on GHG emissions?

Background

The potential for new SEC climate-related disclosure rules has been the subject of significant stakeholder interest and speculation since SEC Chair Gary Gensler signaled agenda priorities in his early 2021 nomination hearing. In his July 2021 remarks and October 2021 testimony before the House Committee on Financial Services (Congressional testimony), Chair Gensler provided transparency into what he asked the staff to consider in the rule proposal. On March 10, 2022, Chair Gensler provided further insight into what he sees as the benefits of the climate risk disclosure proposal. The proposal addresses Chair Gensler's observations as well as other topics and seeks public comment on all aspects of the proposal.

The SEC voted 3-1 to release the 506-page proposal, with Commissioner Hester M. Peirce the lone dissenter. Each commissioner (Caroline A. Crenshaw, Allison Herren Lee, and Peirce) and Chair Gensler released a public statement explaining their individual views on the proposal.

Following is analysis of how the rule proposal incorporated Chair Gensler's observations, what management and boards now should be considering, and thoughts for those who choose to comment on the proposal.

Proposal details

Consistency and comparability of mandatory disclosure

Chair Gensler observations

Chair Gensler's baseline premise for climate change disclosure is consistency and comparability. He likened consistent and comparable disclosure to the 100m sprint times at the Olympics. All runners run the same distance, which allows for comparisons between current competitors and over time. Similarly, he believes standardized, consistent, and comparable climate disclosure allows investors to compare entities against one another. Chair Gensler believes mandatory disclosures allow investors to benefit from consistency and comparability because voluntary disclosure can foster information inconsistency and incompleteness.

Rule proposal

The proposal requires new mandatory disclosures in registration statements and periodic filings generally modeled on available frameworks developed by the Task Force on Climate-Related Financial Disclosures (TCFD) and the Greenhouse Gas Protocol (GHG Protocol).

Practice note

As climate reporting evolved prior to the SEC's proposal, stakeholders used a variety of reporting frameworks, including but not limited to TCFD and the GHG Protocol. Chair Gensler and SEC staff have, in various forums, mentioned their intent to learn from and be inspired by developments at external standard setters, and the proposal notes disclosures based on TCFD and the GHG Protocol would foster consistent and comparable disclosure across entities because entities that are disclosing climate-related information might already be familiar with those frameworks. Entities that currently use a different reporting framework will need to consider how to transition their current reporting to any final rule requirements.

Disclosure location

Chair Gensler observations

The SEC's integrated disclosure regime includes registration statements and periodic reports (for example, Form 10-K). Chair Gensler asked SEC staff to assess whether decision-useful climate disclosures should be included in annual filings on Form 10-K to enable climate-related disclosures to live alongside other decision-useful information.

Rule proposal

The proposed rules require domestic registrants to include climate-related disclosures in registration statements on Forms S-1, S-4, S-11, or 10 and foreign registrants to include climate-related disclosures in registration statements on Forms F-1, F-4, or 20-F. Domestic and foreign registrants also would be required to include climate-related disclosures in annual reports on Form 10-K and 20-F, respectively, with updates for any material changes from the prior annual period included in Form 10-Q or 6-K. The climate-related information is required in a part of the registration statement or annual report that is separately titled "Climate-Related Disclosure."

Practice note

For entities that currently prepare climate-related disclosures as part of, for example, a corporate social responsibility report posted to the entity's website, including mandatory climate-related disclosures in a registration statement or annual report might accelerate the entity's preparation of that information. In addition, various levels of statutory liability attach to information that is filed or incorporated by reference in a registration statement, filed in a periodic report, or furnished, for example, on Form 8-K. The proposal outlines the disclosures that would qualify as forward-looking and observes that staff believe the safe-harbor provisions of the *Private Securities Litigation Reform Act* would apply to forward-looking disclosure, excluding disclosures in initial public offerings assuming all statutory criteria for safe-harbor are met.

The proposal also specifies that target entities in Form S-4 and Form F-4 using Item 17 of those forms, which in some cases are private entities that might not have previously prepared climate-related information, also would be required to provide climate-related disclosures.

Registrants also will need to consider how to gather climate-related information of recently acquired businesses (for example, under Rule 3-05) to include in the entity's filings that require climate-related disclosures.

Disclosure content

Chair Gensler observations

Chair Gensler asked the staff to consider what qualitative and quantitative climate disclosures should be required. Qualitative disclosures, for example, might include how the entity identifies and manages climate-related risks and opportunities and how these factors affect the entity's strategy. Quantitative disclosures might include GHGs, financial effects of climate change, and progress on any disclosed climate-related goals. Chair Gensler also asked the staff to consider the circumstances under which entities should provide scenario analyses discussing how an entity might evolve to address physical, transition, legal, market, or economic risks associated with climate change. He also asked the staff to consider the types of disclosures, including progress toward any stated goals, that might be required for entities making net-zero disclosures in response to climate risk.

Rule proposal

Nonfinancial statement disclosures

New subpart 1500 of Regulation S-K disclosures, based on the definitions provided in Item 1500, include the following, summarized from the proposal:

Item	Proposed disclosure of:
1501	• Board of director's oversight of climate-related risks including expertise, committee assignments, and how the board is involved in climate-related risk discussion, including any climate targets. • Management's role in assessing and managing climate-related risks, including roles and responsibilities for monitoring climate risks and communicating with the board. • How the board or management manages climate-related opportunities, if applicable.
1502	• Climate-related risks, including physical and transition risks, reasonably likely to have a material impact on the registrant over the short, medium, and long term as well as any applicable climate-related opportunities. • Actual and potential effects of the identified climate-related risks on the entity's strategy, business model, and outlook, including impacts on the entity itself and other parties in its value chain (for example, suppliers) and the time horizon of those impacts. • Current and forward-looking disclosures of how the actual and potential effects are considered as part of the entity's business strategy, financial planning, and capital allocation. If applicable, how the entity uses carbon offsets or renewable energy credits in its business strategy. • Whether and how identified climate-related risks have affected or are reasonably likely to affect the entity's financial statements. • Resilience of the entity's business strategy in the face of potential future changes in climate risk including, if used, scenario analysis. • The entity's internal carbon price, if maintained.
1503	• Processes the registrant has for identifying, assessing, and managing climate-related risks and, if applicable, opportunities. • How processes for managing climate-related risks are integrated into the entity's overall risk management. • If applicable, the entity's transition plans including metrics and targets used to identify and manage any physical and transition risks.
1504	A discussion of the proposed GHG emissions metrics and related attestation requirements in proposed Items 1504 and 1505 appears later under "Greenhouse gas emissions."
1505	
1506	• The entity's climate-related targets or goals, if any, (or if the entity is subject to such goals from actual or anticipated regulatory requirements, market constraints, or other goals established by a climate-related treaty, law, regulation, policy, or organization) including, for example, GHG emissions, energy usage, or water usage reductions, conservation or ecosystem restoration, or revenues from low-carbon products. • Quantitative information about the targets or goals, including the relevant time horizon. • Relevant data updated each fiscal year to indicate whether the registrant is making progress toward meeting the target or goal and how such progress has been achieved. • Specific information about carbon offsets used as part of the entity's targets or goals.
1507	Submission of all disclosure in Subpart 1500 using interactive data.

Practice note

The proposed disclosure requirements might prompt those charged with governance (that is, the board of directors) to consider board composition and succession planning, including whether the board currently has expertise in climate-related matters and can execute on its oversight mandate. Boards also might consider whether management has the appropriate expertise to assess and manage climate-related risks.

Now that the SEC has published its rule proposals, stakeholders should carefully consider their implementation timelines for effective disclosure controls and procedures (DCP) over climate disclosure and critically evaluate who should be involved in that exercise, including when and how to involve those charged with governance (that is, the board of directors).

In preparation for the proposal, some stakeholders began the process of newly designing or evolving processes and controls over climate disclosure. DCP, as defined in Section 13a-15(e) of the *Securities Exchange Act of 1934*, are:

> …controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Registrants that currently prepare climate disclosure outside of their SEC filings might need to enhance their DCP to ensure information provided in SEC filings is appropriate and consistent with any final requirements. For example, the entity might need to develop more robust processes and controls related to policy decisions (for example, for identified time horizons), assessing actual or potential effects of identified climate risks (for example, it might be more challenging to implement processes and controls over climate-impact information related to external participants in an entity's value chain than internal information related to the entity's business model) or significant inputs and assumptions used to calculate GHG emissions. In addition, some of the disclosure requirements will require detailed analysis of, for example, the location, including zip code, of assets subject to physical risk, which might require additional processes and controls to prepare the required disclosure.

The time needed to evolve more robust processes and controls might depend on the state of the entity's current climate reporting, including which reporting framework the entity currently uses. Entities that do not currently prepare climate disclosures might need to begin the process of designing and implementing effective DCP, which will take time.

Financial statement disclosures

New Article 14 of Regulation S-X disclosures of climate-related metrics would be required in any filing that includes both disclosures required under Subpart 1500 of Regulation S-K and the registrant's audited financial statements. Disclosures would be presented in a note to the audited financial statements for each historical period presented (that is, two years or three years). Quantitative disclosures would be required to be aggregated and disclosed separately for negative and positive impacts on a financial statement line-by-line basis (for example, revenue, cost of sales, impairments, insured losses, or loss contingencies or other reserves such as environmental contingencies or loan losses) during the fiscal years presented. The proposed footnote disclosures, summarized from the proposal, include the following:

	Description	Content
	Contextual information	• How each specified metric was derived, including significant inputs and assumptions and any policy decisions used to calculate the metrics.
Specified metrics	Severe weather events and other natural conditions	• Quantitative impact of severe weather events and other natural conditions (for example, flooding, drought, wildfires, extreme temperatures, and sea level rise). • Expenditures in historical periods, separately quantified for amounts expensed and capitalized, to mitigate the risks from severe weather events and other natural conditions. • Whether and how any estimates and assumptions in the consolidated financial statements were affected by exposures to risks and uncertainties associated with, or known impacts from, severe weather events and other natural conditions.
Specified metrics	Transition activities	• Quantitative impact of any efforts to reduce GHG emissions or otherwise mitigate exposure to transition risks. • Expenditures in historical periods, separately quantified for amounts expensed and capitalized, to mitigate transition risk exposure. • Whether and how any estimates and assumptions in the consolidated financial statements were affected by exposures to risks and uncertainties associated with any potential transition to a lower carbon economy or any disclosed climate-related targets.

Disclosures of the proposed metrics are required when the sum of the absolute values of all the effects on a specific line item is greater than 1% of the total line item for the relevant fiscal year.

In addition, a registrant would be required to disclose the impact of climate-related risks identified under Subpart 1500 of Regulation S-K on any of the specified financial statement metrics. A registrant also would be able to elect a policy of disclosing the impact of any climate-related opportunities on the financial statement metrics, provided the policy is consistently applied.

Practice note

Financial statement disclosures are subject to both DCP and internal control over financial reporting (ICFR) as defined in the *Securities Exchange Act* Section 13-a15(f). The financial statement disclosures in Article 14 of Regulation S-X are new, and registrants will need to design and place into operation effective ICFR to report the required disclosures. Registrants will need to consider how to design controls and procedures to capture information in their accounting information systems with an appropriate level of detail to be able to track when the quantitative impact and related expenditures for severe weather events or transition activities exceeds 1% of any relevant line item in the financial statements. For example, an entity might need to consider how to code information in its general ledger to track climate-specific items. In addition, registrants will need to consider controls designed to identify when severe weather events and other natural condition or transition activities affect estimates and assumptions in the consolidated financial statements. For those registrants required to provide management's report on the effectiveness of ICFR under Item 308 of Regulation S-K, management will need to assess the effectiveness of any new controls and procedures. Similarly, those new controls and procedures will be subject to auditor attestation for registrants subject to Item 308(b) of Regulation S-K. Finally, when any new controls are implemented, registrants will need to consider Item 308(c) of Regulation S-K, which requires disclosure of any change in ICFR during the preceding fiscal quarter "that has materially affected, or is reasonably likely to materially affect, the registrant's [ICFR]."

Entities not currently public but that intend to undertake an initial public offering need to consider whether and how to capture appropriate disclosure information for the historical financial statement periods to be presented in their initial registration statements. Currently public entities should consider whether, upon adoption of any final rule, they will need to prepare climate disclosures for historical periods preceding their required compliance date. In both cases, the proposal points out that a registrant, in specific circumstances, might avail itself of certain accommodations if preparation of the required information (that is, financial statement disclosures) for periods prior to the current fiscal year is "not reasonably available" without unreasonable effort or expense, per the *Securities Act of 1933*, Rule 409, and the *Securities and Exchange Act of 1934*, Rule 12b-21.

Greenhouse gas emissions

Chair Gensler observations

Chair Gensler asked the staff to consider how entities might disclose Scope 1 and Scope 2 emissions (that is, emissions arising from the entity's operations and use of electricity) as well as whether an entity should disclose Scope 3 emissions (that is, the emissions of other entities included in the issuer's value chain). In his Congressional testimony, Chair Gensler received various questions on his consideration of Scope 1, 2, and 3 emissions disclosures.

Rule proposal

Disclosure

The proposal would require a registrant to disclose, outside of its audited financial statements under Item 1504 and 1505 of Regulation S-K, its GHG emissions, disaggregated into seven types of constituent GHGs and in terms of carbon dioxide equivalent (CO_2e) in the aggregate, for the current fiscal year and, if reasonably available, for other historical fiscal years presented in the filing. Registrants would specifically disclose:

- Scope 1 and 2 emissions from all sources in the entity's organizational and operational boundaries, as defined.
- Scope 3 emissions, if material, or if the entity has included Scope 3 emissions in any GHG emissions reduction target or goal:
  - Scope 3 emissions disclosures, if required, would also include disclosure of data sources and categories of Scope 3 emissions.
  - SRCs are exempt from Scope 3 emissions disclosures.
- GHG intensity in terms of metric tons of CO_2e per unit of total revenue and per unit of production relevant to the registrant's industry for each fiscal year:
  - Using the sum of Scope 1 and 2 emissions.
  - Separately for Scope 3 emissions, if required.
- The methodology, significant inputs, and significant assumptions used to calculate the registrant's GHG emissions.

Practice Note

Board members charged with oversight of climate-related matters might need to consider whether the board has appropriate expertise to oversee the entity's climate disclosure and related processes, including Scope 1, 2, and 3 emissions disclosures, if applicable. Management might need to evaluate how to design appropriate DCP to capture GHG emissions within the entity's organizational boundary, as defined. Scope 3 emissions data, for which the rule proposes certain liability protections, might require significant coordination with outside parties, including other entities not within the registrant's organizational boundary such as suppliers in the registrant's value chain. Management also might need to consider how to design processes and procedures to appropriately calculate the required disclosures. For example, the rule proposal allows an entity to estimate fourth quarter GHG emissions for purposes of reporting annual GHG emissions, provided the entity "promptly discloses" in a subsequent filing any material differences between the fourth quarter estimate and the entity's actual fourth quarter GHG emissions. The "not reasonably available" without undue effort or expense accommodation for historical periods preceding the current fiscal year also is available for GHG emissions disclosures.

Attestation

Large accelerated and accelerated filers would be required to provide an attestation report on their Scope 1 and 2 disclosures starting one year after disclosure begins. The level of assurance required for the attestation report (for example, limited assurance or reasonable assurance) would be phased in over time. The GHG emissions attestation service provider must be both independent and an expert in GHG emissions and must perform the attestation engagement under publicly available standards that have been subject to appropriate public comment and due diligence. Large accelerated and accelerated filers also would be required to include certain other disclosures related to the attestation service provider including whether the attestation service provider is licensed to provide assurance, whether the GHG attestation engagement is subject to any oversight inspection program, and whether the service provider is subject to any formal recordkeeping requirements.

Practice note

Entities might need to consider how and when to identify and coordinate with external service providers on the attestation requirements as the selection of a service provider and executing an attestation engagement can take time. In addition, entities that already obtain attestation services might need to evaluate whether their current service provider will meet the proposed requirements for performing these attestations. In either case, those charged with governance at large accelerated and accelerated filers will need to consider the additional disclosure requirements in relation to the selected attestation service provider. Finally, attestation reports require management to make an assertion (for example, that the information is prepared in accordance with the selected reporting standard), which might require management to consider beginning the process to allow them to make such an assertion.

Materiality

Chair Gensler observations

Chair Gensler's response to materiality questions at his nomination hearing demonstrated that he views materiality through the Supreme Court lens, namely "that information is material if there is 'a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available'." During Chair Gensler's Congressional testimony, several representatives questioned whether the general materiality requirement in the SEC disclosure regime suffices to elicit material climate disclosures; however, Chair Gensler believes that investor demand for climate disclosures indicates a need for specific disclosure rules.

Rule proposal

The proposal addresses disclosures in three ways:

- Required
- Required when material
- Required when a bright-line threshold is exceeded

Many of the proposed disclosures (for example, disclosure of how the board and management govern and manage climate risks) will be required in all filings. For disclosures required when material (for example, climate-related risks reasonably likely to have a material impact, Scope 3 emissions), materiality is defined in the proposal consistent with the Supreme Court definition of materiality, which means disclosures must be included in the filing when a reasonable investor would view the omission of that information as having significantly altered the total mix of available information. The financial statement metric disclosures in proposed Article 14 of Regulation S-X are required when the specified impacts or expenditures exceed a bright-line threshold of 1% of individual financial statement line items.

Practice note

Materiality, in relation to the total mix of information, applied to climate disclosures can be challenging. While stakeholders have long applied materiality considerations to financial statements and SEC staff has recently provided financial statement materiality reminders, whether a particular climate disclosure or an error in that disclosure is material will require careful consideration of the total mix of information made available. Climate materiality considerations also might evolve as an entity's total mix of information evolves, and management likely will need to design and implement a robust process and controls to continually evaluate materiality in this context.

The SEC staff has been exploring materiality in relation to climate disclosures over the past year, including providing registrants with a sample comment letter on climate change disclosures. Certain registrants received specific comment letters based on the points in the sample letter. In some cases, SEC staff asked for specific quantitative and qualitative analyses of how the registrant applied materiality to climate change disclosures included or omitted from the filing. The proposal points out that if an entity determines, for example, Scope 3 emissions are not material, "it may be useful to investors to understand the basis for that determination."

The bright-line threshold for disclosures under Article 14 of Regulation S-X removes materiality questions from the assessment of when to disclose that information in the financial statement footnotes.

Industry-specific metrics

Chair Gensler observations

Chair Gensler asked the staff to consider whether certain industries including banking, insurance, and transportation should be required to disclose certain standard climate risk metrics.

Rule proposal

Industry-specific metrics largely were not included in the proposal; however, examples of how specific industries might comply with the proposed rules related to financial statement disclosures and GHG emissions data are included.

Practice note

The proposal contains examples across various industries of the types of disclosures that certain industries might consider when drafting disclosures responsive to the proposed rules. For example, the proposal suggests how a financial registrant might determine its Scope 3 emissions, when material. The proposal cites the Partnership for Carbon Accounting Financials' Global GHG Accounting & Reporting Standard for the Financial Industry (PCAF Standard) as one methodology that complements the GHG Protocol and helps financial institutions calculate their financed emissions. The proposal explains how the PCAF Standard assists in calculating Scope 3 emissions for the "investment" category of downstream emissions, including listed equity securities and corporate bonds, business loans and unlisted equity securities, project finance, commercial real estate, mortgages, and motor vehicle loans. As another example, the proposal suggests a transportation entity might discuss climate-related opportunities related to replacing its fleet with low- or zero-emission vehicles.

Compliance dates

Chair Gensler observations

Chair Gensler indicated during his Congressional testimony that he is open to considering how disclosures might be phased in from the perspective of both the type of disclosure (for example, qualitative versus quantitative disclosure) and the size of a registrant (for example, SRC, large accelerated filer, accelerated filer).

Rule proposal

The proposal provides for phase-in of disclosures and attestation for GHG emissions and provides example compliance dates based on an assumed effective date in December 2022 for calendar year-end registrants. The following charts are excerpted directly from the rule proposal's fact sheet:

Disclosure compliance dates

Filer status	Disclosure compliance date	
	All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric, but excluding Scope 3	GHG emissions metrics: Scope 3 and associated intensity metric
Large accelerated	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)
Accelerated and nonaccelerated	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)
SRC	Fiscal year 2025 (filed in 2026)	Exempted

Assurance compliance dates

Filer status	Scopes 1 and 2 GHG disclosure compliance date	Limited assurance	Reasonable assurance
Large accelerated	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	Fiscal year 2026 (filed in 2027)
Accelerated	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	Fiscal year 2027 (filed in 2028)

Practice note

Disclosures would begin for large accelerated filers one year after the effective date of the final rule, with accelerated and nonaccelerated filers following in year two and SRCs in year three. Limited assurance attestation requirements for Scope 1 and 2 emissions disclosures would begin the year after disclosures begin for large accelerated and accelerated filers, followed by reasonable assurance two years later. Attestation is not required for nonaccelerated filers and SRCs. The proposed rules generally do not provide any timing or content accommodations for emerging growth companies (EGCs).

Some of the disclosure proposals (for example, actual and potential impacts of identified climate-related risks on entities in the registrant value chain, Scope 3 emissions) depend on obtaining information from entities external to the registrant, which might add additional time to a registrant's disclosure preparation plan.

Economic analysis

The SEC's Current Guidance on Economic Analysis in SEC Rulemaking calls for an economic analysis for each rule proposal. The economic analysis in this proposal runs 130 pages, or slightly less than one-third the total length. The analysis explores the anticipated impact of the proposed rules including broad economic considerations, overall benefits (for example, investor access to more decision useful information) and costs (for example, direct and indirect costs for an individual registrant to comply with the proposed rules), the impact to capital formation, other economic effects, and reasonable alternatives considered.

Considerations for comment letters

The SEC requests feedback on all aspects of the rule proposal. However, for any one comment letter, not every question must be answered, so it is acceptable for a comment letter to focus only on certain questions or to provide thoughts that are not directly tied to a specific question.

Comments supporting and comments against the proposal are likely. The most useful letters are those that explain the "why," that is, the rationale for the position taken. The SEC considers all comment letters received, and this proposal is likely to foster significant comment from all stakeholders – users, preparers, auditors, and others. These letters ultimately will inform the staff on what any final rule should include.

What's next?

After the comment period closes, the SEC will consider feedback and work to issue a final rule. As developments occur, we will continue to keep you informed.

Learn more

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