Voice of the CFO

CFOs navigate new SEC climate disclosure rules

The new Securities and Exchange Commission (SEC) climate disclosure rules[1] for US public companies was released a few weeks ago. What are chief financial officers (CFOs) and their organizations responsible for and when? Maura Hodge, ESG Audit leader at KPMG, delivered a three-minute overview of the new regulation followed by 40 minutes of lively discussion by CFOs. Generative AI (GenAI) was also discussed.

On the CFO agenda
March 2024

- New SEC climate disclosure rules
- CFO/company reporting obligations
- GenAI innovative use cases

Disclosure deliberations

The SEC climate disclosure rules prompted varied discussion among the CFOs and some debating where reporting should sit within the organization. Many CFOs, rigorous and detailed by their nature, ruffled at the thought of disclosing greenhouse gas (GHG) emissions in their 10-K. Many may have been hoping for a reprieve from compliance.

Maura Hodge, KPMG ESG Audit leader, provided the level set. "The bones of the SEC climate proposal remained intact in the final rule, but substantive changes were made to the details. Of primary note, disclosures on strategy and climate risks, as well as scope 1 and 2 GHG emissions, are required if material. Adding the consideration of materiality to these disclosure requirements means that companies must first collect any existing climate-related disclosures, whether performed for voluntary or other regulatory purposes (EU CSRD, California, or ISSB for other jurisdictions) and then determine whether the information is material. If management concludes it is not, then having a document argument for excluding from the 10-K is advisable."

In addition, the 1 percent threshold was retained but only applied to total stockholders' equity/deficit and pretax income/expense. And aggregation of expenses, capital expenditures, and losses are only required if they relate to severe weather events and other natural conditions or carbon offsets and renewable energy credits when a material part of a company's strategy.

Hodge reminded CFOs that filing an assurance report over GHG emissions would be voluntary for large, accelerated filers until 2029. Irrespective of this longer SEC timeline, the European Union (EU) and California will still require reporting of scope 1, 2, and 3 GHG emissions with assurance and other climate-related disclosures beginning in 2025, so companies subject to these other reporting regimes will need to continue to move forward quickly, contemplating interoperability and how they can build a process to comply with all relevant ESG reporting regulations.

Company-specific obligations

The rubber hit the road when CFOs started applying SEC climate disclosure rules to their own organizations.

"A real concern for us was the 1 percent threshold associated with a weather event given we insure individuals and businesses," said the CFO of a major insurance company. "The big relief is the 1 percent or any of the metrics referenced are already disclosed to our investors."

Other CFOs expressed concerns about the supporting language requiring estimations of emissions or the challenge of collecting data from engineers.

[1] Source: SEC Web site, press release "SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors" March 6, 2024

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“The honest answer is it’s going to take time.”

A CFO for an infrastructure company noted, “For the SEC requirement, our controllers will have to get up to speed and operations and emissions folks will produce the numbers. We’ll then aggregate them through our controllers. It will still be an estimate.”

The CFO for a multinational fast food chain presented a different challenge with collecting data. “There are so many different components that need to fit that it requires connective tissue across the organization to ensure data comes from the right places. The honest answer is it’s going to take time.”

This CFO also shared a tip other CFOs could implement. Finance instructed the internal audit team to conduct a full review of the GHG data collection process. The internal audit elevated visibility within the organization and made leadership aware of the reporting challenges the organization was facing in producing the GHG emissions. This helped move resources in their direction to address these gaps.

Update: SEC Stays Climate Rule

On April 4, 2024, the SEC issued a stay of its climate disclosure rule, pending judicial review. This comes on the heels of our regulatory discussion on the topic. Our understanding/advice: no change in SEC’s position regarding its authority; no effect on companies preparing for compliance.

The SEC climate disclosure rule is temporarily paused while legal challenges are resolved. The rule’s effective date, January 1, 2025, is uncertain. It’s worth noting that companies are continuing to prepare for the rule as challenges may fail. Some firms are considering the SEC rule alongside other reporting requirements, while others are still moving ahead with its implementation.

For more information, please refer to our article “SEC stays its climate rule pending judicial review.”

GenAI early adopters and big believers

Organizations either are in the process of adopting generative AI (GenAI) or qualify as enthusiastic big believers. Many are focused on data cleanup since GenAI applications require diverse, high-quality data sets.

Sanjay Sehgal, KPMG Advisory Head of Markets, set the record straight with analysis that many organizations have carried out GenAI pilots, but some have progressed further.

“You can start to do forecasting using GenAI, and the easiest use case after that is competitive intelligence,” said Sehgal.

That struck a chord with one of the CFO participants. “It would be a big win using GenAI for competitive analysis as we spend an enormous amount of time on it.”

More discussion led to more use cases that save time and cut costs. The CFO for a managed health company found a big time saver in a GenAI use case involving recurring financial reporting.

“There is a monthly results package that we all produce that we absolutely hate. The GenAI tool produces an automatic table that’s saving us a lot of time with no difficult coding or anything complicated.”

The CFO of a major insurance provider found that a GenAI solution reduced claims handling costs by 80 percent. “The dollars add up, and it frees up resources.”

What about upending the entire claims process? A CFO shared how. In the current process, 14,000 claims professionals who handle one million claims a year consult with thick manuals and complex rules that must be followed. With the new process, all the documentation is brought into a GenAI tool with a Q&A format for claims handlers to use.

“We use the GenAI tool for claims handling all day, every day. It really impacts dollars on the finance side.”

“The dollars add up, and it frees up resources.”

Our hosted call with CFOs initiated important conversations about the new SEC climate disclosure rules. KPMG highlighted the critical aspects of the regulation, focusing on materiality and disclosure requirements. CFO concerns were raised about the difficulties in estimating GHG emissions and the hurdles in data collection. CFOs also discussed GenAI from early forays to current use cases transforming operations.

Takeaways

- Assess how SEC climate disclosure rules fit with other ESG mandates
- Audit compliance processes to better prepare and raise awareness with leadership
- Focus on data cleanup since GenAI requires diverse, high-quality data sets

Additional insights

SEC mandates climate reporting and assurance

Handbook: GHG emissions reporting

Handbook: Climate risk in the financial statements

AI-Enabled Finance webcast

AI and Financial Reporting Survey – what are companies doing and where do you stand?

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