



The SEC's Climate Disclosure Rules: What CRE Should Know

"The Enhancement and Standardization of Climate-Related Disclosures for Investors"
FACT SHEET (March 12, 2024)

The U.S. Securities and Exchange Commission (SEC) released long-awaited [final "Climate Disclosure Rules"](#) on March 6, 2024. Companies registered with the SEC that own, develop, or finance real estate are subject to these rules. Non-registered companies should also understand the SEC's new requirements if they seek debt or equity from registered financial institutions. (Registrants can be identified in the SEC's [EDGAR database](#)).

The Climate Disclosure Rules phase-in and ramp-up over time. The largest companies (with shares held by public investors (i.e., "public float") greater than \$700 million) must start complying in 2025. The SEC's federal rules do not preempt similar state laws that might establish their own reporting regimes, like the climate disclosure package passed by [California](#) in 2022 (which is the subject of [litigation](#)). Companies must still comply separately with any relevant state laws.

CRE registrants should become familiar with the new rules if they:

- Voluntarily set corporate "targets" to reduce emissions in their buildings or portfolios;
- Own or control real estate assets located in [cities or states](#) with building performance mandates;
- Purchase RECs or offsets to increase renewable energy supplies or mitigate carbon impacts;
- Made significant expenses to repair buildings after a storm, or "weather-proof" them with resiliency measures;
- Bear increased insurance costs for waterfront properties due to anticipated sea level rise, or for assets in locations prone to wildfires;
- Have life-cycle investment plans to make capital expenditures on building electrification.

The SEC's Climate Disclosure Rules likely trigger reporting requirements in each of these circumstances if the financial impacts on the company are "material." The courts may ultimately decide the legality of the SEC's Climate Disclosure Rules and whether or when they take effect. In any event, institutional investors might move the market toward the SEC's rules even if they are stalled or struck in court.

Overview of Changes to Reg S-X (Part 210) and Reg S-K (Part 229)

- **Part 210** amendments: New requirements to [Regulation S-X](#), regarding the company's audited financial statements that must be filed annually as part of [Form 10-K](#). The Climate Disclosure Rules require a registrant to present a [financial picture](#) of how certain climate-related financial risks impact a company's income, losses, expenses and assets.
- **Part 229** amendments: New "items" to [Regulation S-K](#), which generally requires 10-K disclosures in narrative, descriptive formats that explain "material" risks and opportunities.
 - The Climate Disclosure Rules require new **descriptive** and **quantitative** reports on material expenditures incurred and estimated to address "physical" and "transition" risks, and to meet GHG targets.
 - The Climate Disclosure Rules also require new reports of **calculated** Scope 1 and 2 emissions **metrics** that are "material." These GHG disclosures must be supported by independent 3rd party attestations.
 - Significantly, there is **no Scope 3 reporting mandate from the SEC**.





The SEC's Climate Disclosure Rules: What CRE Should Know

"The Enhancement and Standardization of Climate-Related Disclosures for Investors"

FACT SHEET (March 12, 2024)

Part 210: Reg S-X Disclosures in an Audited 10-K Financial Statement

A new footnote in the Form 10-K financial statement must disclose the following:

- **"One percent" or greater financial impact from "severe weather events" and "natural conditions":**

- Is the "aggregate amount" of "expenditures expensed and losses incurred" as a result of severe weather **greater than or equal to 1%** of pre-tax income or loss? If yes, those expenses and losses must be disclosed. Expressed as a fraction:

$$\frac{\text{aggregate amount of expenditures expensed and losses incurred as a result of severe weather events or natural conditions}}{\text{absolute value of income or loss before income tax expense or benefit for the relevant fiscal year (line item in income statement)}}$$

- Is the "aggregate amount" of "capitalized costs and charges" as a result of severe weather **greater than or equal to 1%** of stockholders' ownership interest in the book value of the company? If yes, those costs and charges must be disclosed. Expressed as a fraction:

$$\frac{\text{aggregate amount of capitalized costs and charges incurred as a result of severe weather events or natural conditions}}{\text{absolute value of stockholders' equity or deficit for the relevant fiscal year (line item in balance sheet)}}$$

- Disclosures of expenditures/losses and capitalized costs/charges must separately identify where these items are presented in the income statement and balance sheet.
- **Examples:** Did the registrant incur expenses/costs – **in the prior fiscal year** – from any of the following events? Did the "aggregate" amount of these expenses/costs exceed the "1% threshold"? If "yes" to both, then the expenses/costs must be disclosed in a footnote to the 10-K financial statement:
 - Shut down a facility or move tenants due to a wildfire?
 - Stop construction activities due to extremely hot weather?
 - Relocate equipment in a basement that was flooded?
 - Install water-saving systems due to a drought?
 - Replace a roof due to a tornado?
 - Lose coverage or pay more insurance due to sea level rise or wildfires?

- **RECs and carbon offsets:** Did the registrant purchase RECs or carbon offsets – **in the prior fiscal year** – as a "material component" of plans to reach an emission target that it set voluntarily (e.g., [SBTi](#)), or to meet a [state/local BPS](#) mandate? If yes, the registrant must disclose the "aggregate" amounts of expenses, costs, and





The SEC's Climate Disclosure Rules: What CRE Should Know

"The Enhancement and Standardization of Climate-Related Disclosures for Investors"

FACT SHEET (March 12, 2024)

losses on these measures – and separately identify where each is presented in the income statement and balance sheet.

- Disclose beginning and ending balances for RECs/offsets for the prior fiscal year.
- State your "accounting policy" to provide context for purchases of RECs and carbon offsets.

- **Recoveries:** Disclose the amount of insurance proceeds received in the prior fiscal year from severe weather.
- **Attribution:** Disclose expenses/costs where a severe weather event or condition was a "significant contributing factor" to incurring them. Climate-related financial impacts should be disclosed even if particular expenses/costs cannot be isolated or attributed to a specific event that occurred.
- **Risk exposure:** Relatedly, the registrant should disclose whether estimates and assumptions in the financial statement "were *materially impacted* by exposures to *risks and uncertainties* associated with or known impacts from" severe weather events or natural conditions.

Part 229: Reg S-K Climate-Related Disclosures

The SEC adds new disclosure "items" to be included in registration statements and Form 10-Ks outside of the audited financial statement. Further, the Climate Disclosure Rules require a letter from an "attestation provider" to assure the validity of numeric Scope 1 and Scope 2 emission calculations if they are deemed "material."

- **Governance**
 - Describe the Board of Directors' oversight of climate-related risks, and processes to inform it of such risks.
 - How does the Board oversee progress toward achieving any corporate climate goals or transition plans?
 - Does the company have executives or managers responsible for implementing climate and energy initiatives? Do they report to the Board?
- **Strategy**
 - Describe separately "**short-term**" (in the next 12 months) and "**long-term**" (beyond the next 12 months) "**physical**" and "**transition**" risks that have or will reasonably materially impact the registrant.
 - ✓ Material "**physical risks**" should be categorized as:
 - "Acute," driven by a specific severe weather event, or
 - "Chronic," related to longer-term weather patterns, and
 - " By specific geographies and the "nature" of properties in a portfolio.
 - ✓ Material "**transition risks**" regarding actual and potential impacts on a registrant's business and operations may include things like:
 - Regulatory costs to come into compliance with or penalties imposed by [state or local](#) building laws;
 - Pressures to adopt new technologies, such as those required by a state or locality in a newly-enacted [energy code](#);





The SEC's Climate Disclosure Rules: What CRE Should Know

"The Enhancement and Standardization of Climate-Related Disclosures for Investors"

FACT SHEET (March 12, 2024)

- Description of cap ex plans and life-cycle investment horizons to switch gas-fired boilers to electric heat pumps;
- Reduced market demand for carbon-intensive products and the supply and availability of low-carbon construction and other building materials;
- Explanations of progress to achieve transition plans and updates each year in annual reports.
- Disclosures of expenses incurred and estimated impacts from physical risks, transition risks, and efforts to meet GHG goals must be both qualitative **and** quantitative (per Items 1502(d)(2), 1502(e)(2), 1504(c)(2)).
- Describe the results of any climate-related "**scenario analysis**" that may have a material impact on finances and operations.
- Describe whether the registrant uses an internal "**carbon price**" (per metric ton of CO₂e) to evaluate and manage material climate-related risks.
- **Risk Management**
 - Describe processes to identify, assess, and manage material physical and transition risks.
 - Will the registrant take steps to adapt to the risk? Mitigate it? Accept it and deal with the consequences?
- **Targets and Goals**
 - The SEC has no authority to impose, and the Climate Disclosure Rules cannot require, a registrant to develop or meet any "target" to limit emissions or reduce energy use from buildings or portfolios.
 - However, if the registrant has voluntarily set a goal for itself — or is subject to a mandatory target imposed by another regulatory body — then the goal or target must be disclosed if it has a material impact on operations or finances.
 - Relevant emissions "target" disclosures may include:
 - ✓ Identifying the protocol or standard that the registrant uses to set a voluntary goal (e.g., the [Science-based Targets Initiative \(SBTi\)](#)).
 - ✓ Any targets under [state or local](#) performance standards that apply to the registrant's assets.
 - ✓ When does the registrant intend to meet a target? Over what time horizon?
 - ✓ How the registrant determines an emissions "baseline" and how it tracks progress.
 - ✓ Costs and financial estimates that are a "direct result" of target setting and compliance.
 - If **RECs or carbon offsets** are a "material component" of the registrant's plan to achieve a target, then the following should be "separately disclosed":
 - ✓ Amount of carbon avoided by the offset;
 - ✓ Amount of renewable energy generated by the REC;
 - ✓ The source of the RECs (e.g., whether or not they are they are "bundled" with a PPA);
 - ✓ A description of the offset project's location;
 - ✓ The costs to procure RECs or offsets; and
 - ✓ Any relevant registries or authentication standards (e.g. are RECs [Green-e certified](#)? Do carbon offsets meet [US-CFTC guidelines](#)?).
 - **Note:** EPA's tools to measure building [emissions](#) and [efficiency](#) offered by **ENERGY STAR Portfolio Manager** are not mentioned in the SEC's release. But they likely provide useful, standardized means to assist real estate companies reporting under the Climate Disclosure Rules.





The SEC's Climate Disclosure Rules: What CRE Should Know

"The Enhancement and Standardization of Climate-Related Disclosures for Investors"
FACT SHEET (March 12, 2024)

• **Scope 1 and Scope 2 Emissions Metrics and Attestation**

- Disclosures here only pertain to "Large Accelerated Filers" (>\$700M public float) and "Accelerated Filers" (between \$75M and \$700M public float).
- Any Scope 1 and 2 reporting obligation pertains only to emissions **if "material"** for the prior fiscal year.
- Describe the methodology, inputs, and assumptions for Scope 1 and 2 calculations including:
 - ✓ **"Organizational boundaries"**: If these boundaries for emissions purposes "materially differ" from the scope of "consolidated" entities in the 10-K's financial statement, explain the difference.
 - What is your organization's [approach](#) to report GHG emissions? Equity share? Financial control? Operational control?
 - ✓ **"Operational boundaries"**: Explain how you categorize emissions and sources as Scope 1 or 2.
 - Do you "bucket" tenant-based emissions as Scope 2 or Scope 3? Why? Is space metering a factor?
 - ✓ The **"protocol or standard"** used to report emissions – including **emissions factors** and tools to calculate emissions.
 - Do you follow [GHG Protocol](#) guidance? [TCFD](#)'s framework?
 - No specific emissions factor is required (e.g., [eGRID location-based](#), or specific [market-based](#) factor for purchased electricity). However, you must describe factors you use for Scopes 1, 2 calculations.
 - **Note:** US-EPA maintains a range of conversion factors in its [GHG Emissions Factors Hub](#).
 - ✓ "Reasonable estimates" are ok as long as assumptions are described.
- Scope 1 and Scope 2 reports can be filed in Form 10-Q in the **second quarter** of the registrants' fiscal year – or in an amended 10-K filed in the second quarter.
 - ✓ Registrants thus have **more time to collect utility bill data** from the prior fiscal year and can wait until the second quarter to accurately calculate and report on Scope 1 and 2.
 - ✓ Form 10-Ks must include an "express statement" that Scope 1 and 2 disclosures will be made the following quarter via Form 10-Q.
- **Scope 3 emissions do not have to be quantified or assured under the SEC rule.** However, a registrant must disclose a Scope 3 target or goal if it has created one voluntarily or has one imposed upon it by some other legal requirement – **and** if the target has a material effect on the registrant's business.
- **Non-accelerated filers** (for example, a company not listed on a stock exchange) are not subject to Scope 1 and 2 disclosures assuming they do not meet the requisite "public float" levels. But they are still covered by other aspects of the rules if they are registered with the SEC, file 10-Ks, etc.
- **Attestations and Assurance**
 - ✓ Scope 1 and 2 calculations must eventually be supported by a third-party "attestation" report, for the largest companies starting in 2029.
 - ✓ The largest companies must attest to a "limited assurance" level in 2029, that scales up to "reasonable assurance" in 2033.
 - ✓ A letter from the attestation provider regarding Scope 1 and Scope 2 calculations must be attached as an exhibit to the Form 10-Q or amended Form 10-K. The report itself is not attached.





The SEC’s Climate Disclosure Rules: What CRE Should Know

“The Enhancement and Standardization of Climate-Related Disclosures for Investors”

FACT SHEET (March 12, 2024)

Compliance Dates and Assurance Deadlines

Registrant Type	Reg S-X Audited Financial Disclosures	Reg S-K Disclosures (except Scope 1 and 2)	Reg S-K Scope 1 and Scope 2 Metrics	Reg S-K Scope 1 and Scope 2 Assurance
Large Accelerated Filer (LAF) (>\$700 million “float” held by public investors)	Any fiscal year that begins in 2025	Most narrative descriptions: Any FY that begins in 2025 Disclosures of material expenditures*: Any FY that begins in 2026	Any fiscal year that begins in 2026	Limited Assurance: Any FY that begins in 2029 Reasonable Assurance: Any FY that begins in 2033
Accelerated Filer (>\$75 million but <\$700 million “float” held by public investors)	Any fiscal year that begins in 2026	Most narrative descriptions: Any FY that begins in 2026 Disclosures of material expenditures*: Any FY that begins in 2027	Any fiscal year that begins in 2028	Limited Assurance: Any FY that begins in 2031 No Reasonable Assurance requirement
Non-Accelerated Filers	Any fiscal year that begins in 2027	Most narrative descriptions: Any FY starting in 2027 Disclosures of material expenditures*: FY starting in 2028	N/A	N/A

*Pertains to quantitative and qualitative disclosures regarding “material expenditures incurred and material impacts on financial estimates and assumptions” that “directly result from” climate mitigation, transition plans, and meeting emissions targets, as described in Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2), respectively.

Examples:

- FY’25 begins Jan 1, 2025
- FY’25 ends Dec 31, 2025
- LAF files FY’25 Form 10-K in March 2026
- March 2026 10-K audited financial statement disclosures cover climate-related expenses, costs incurred from Jan 1, 2025 - Dec 31, 2025
- FY’25 begins July 1, 2025
- FY’25 ends June 30, 2026
- LAF files FY’25 Form 10-K in Sept. 2026
- Sept. 2026 10-K audited financial statement disclosures cover climate-related expenses, costs incurred from July 1, 2025 – June 30, 2026





The Real Estate Roundtable

The SEC's Climate Disclosure Rules: What CRE Should Know

"The Enhancement and Standardization of Climate-Related Disclosures for Investors"

FACT SHEET (March 12, 2024)

The Real Estate Roundtable (RER) does not intend this communication to be a solicitation related to any particular company, nor does it intend to provide investment, legal, or tax advice. Nothing herein should be construed to be an endorsement by RER of any specific company or products as an offer to sell or a solicitation to buy any security or other financial instrument or to participate in any trading strategy. RER expressly disclaims any liability for the accuracy, timeliness, or completeness of data in this publication. RER may update this fact sheet periodically as new information comes to light and as this issue evolves.

