CORPORATE DISCLOSURE OF INFORMATION ON CLIMATE-RELATED MATTERS: RESEARCH INTO THE NEW PROPOSALS OF SEC, EFRAG, AND ISSB (PART I)

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Abstract: The contemporary problems that occur due to climate change are unique. The change climate process observed for decades causes an existential threat to both humankind and other living beings. Another interrelated risk arises from environmental degradation and biodiversity deterioration. The multiple complicated, compound and simultaneous impacts of both factors and processes on people, biodiversity, and economic entities and sectors pose challenges to humankind.
Current circumstances and effects of climate change require adequate governmental, institutional, managerial, and administrative strategies, policies, and activities both at national, regional, and international levels, for achieving sustainable (ecological), fair, and resilient growth alongside combating climate change. Moreover, natural phenomena and processes, unknown to the local indigenous inhabitants of certain geographical regions, are vast evidence of climate change. All these processes, more and more give rise to highlighting and justifying the need for meaningful climate-related disclosures through the opportunities of corporate reporting.
The societal necessity of trustworthy, transparent, and reliable disclosures on climate-related matters and inherent potential risks and opportunities focused on climate change mitigation and adaptation is the problem of crucial importance to the present article. The relevance of climate-related disclosures as a significant part of present-day corporate reporting proves to be of great importance to achieving disclosure efficiency. The author aims to highlight, discuss and justify the necessity of a responsible approach to implementing and conducting an adequate disclosure policy and providing meaningful and consistent disclosures concerning matters, risks, and opportunities related to climate and its visible change. This is considered a substantial part of contemporary corporate reporting and substantiates why probable benefits for a sustainable future can be expected, not only for the company. Concerning the specified issues and objectives, the paper discusses and essentially presents the three most significant proposals for climate-related disclosures recently made – the U.S. Securities and Exchange Commission's proposal, the proposal made by the European Financial Reporting Advisory Group, and the International Sustainability Standards Board's proposal. The author has set out to present the just essential core values of each of the proposals, thus comparing them with each other as well as with the foundation they follow – the recommendations of the TFCD framework.
The terminology is in the field of both financial and non-financial reporting and the respective regulatory frameworks, which are not fully aligned, although the long-lasting efforts of many global and international authoritative organizations and institutions. Heuristic methods like analysis and synthesis, methods of induction and deduction, descriptive approach, and techniques and methods such as observation, analogy, comparison, and others were applied in the research process that is important to achieving the author's objective.
Keywords: Environmental Degradation, Sustainability, Climate Change,

1. INTRODUCTION TO JUSTIFYING THE GLOBAL NECESSITY OF COMPLETE, TRANSPARENT, CONSISTENT, COMPARABLE, AND COHERENT DISCLOSURES ON CLIMATE-RELATED MATTERS

Climate change has been on the rise over the recent decades. Credible information and statistical data, up-to-date facts, figures, and natural phenomena indicate that climate change is intensifying. The United Nations (UN) announced with alarm about many disturbing facts and developing processes in nature. Some most troubling facts and processes alongside the rise of the average global temperature and sea level, and the shrinking Arctic's sea ice are that: "Global emissions of carbon dioxide have increased by almost 50 percent since 1990. Emissions grew more quickly between 2000 and 2010 than in each of the previous three decades," (United Nations Environment Programme Goals)[1]. In June 1992, the United Nations Rio 'Earth Summit' sent an alarming message to the whole world. In May 2019, the UN Secretary-General António Guterres evocatively emphasized the emerging problems caused by the intensifying climate change. Guterres stated that the world is "on the verge of the abyss" requesting strongly the Members of the UN make the most possible efforts to achieve success at the COP26 – the UN yet

[1] United Nations (UN). UN Environment Programme, available at https://www.unep.org/explore-topics/sustainable-development-goals/why-do-sustainable-development-goals-matter/goal-13.

another conference on climate change. It was highly announced by the Organization (UN) that “Climate change is increasing the frequency and intensity of extreme weather events such as heat waves, droughts, floods, and tropical cyclones, aggravating water management problems, reducing agricultural production and food security, increasing health risks, damaging critical infrastructure and interrupting the provision of basic services such water and sanitation, education, energy, and transport,” (United Nations Environment Programme).[2] Among the most disturbing facts challenging governments, institutions, and stakeholders like shareholders, investors, creditors, lenders, employees, and other people concerned, are the following ones:

- Since the pre-industrial era, due mainly to the impact of factors like growth of both economics and population, the greenhouse gas emissions have increased to a level that nowadays those emissions are higher than ever before[3];
- The rising global temperature alarmingly going on is detrimental to people’s ability to grow fruits, vegetables, and other similar products, and to produce food;
- Storms, floods, hurricanes, droughts, and other natural phenomena are increasing;
- Oceans become warmer and more acid, ice disappears, and sea levels rise for the reason of global warming, and those processes evolve at unprecedented rates (United Nations Environment Programme)[4][5][6]

Climate change can and most probably will generate various unfavorable effects on the business models of the affected companies, on their cash flows and financial positions, and on the relevance of the indicators of financial performance. Many even most industries have been, or probably will be, significantly affected by climate change. Global efforts are necessary to manage, mitigate and reduce climate change’s negative impact. The extent to which companies will be impacted by climate change depends on the influence of various external and internal factors – physical-geographical, the nature of companies’ activities, and the assets for which those assets are designed. It is reasonable to argue that certain industries, activities, and companies will be more impacted. The societal necessity of reliable disclosures on the substantial climate-related matters, inherent risks, and opportunities focused on mitigation of climate change and adaptation to the process is intensifying.

2. THE NEW PROPOSALS OF THE U.S. SEC, THE EU EFRAG, AND THE ISSB AT THE IFRS FOUNDATION FOR CORPORATE DISCLOSURE ON CLIMATE-RELATED MATTERS: OVERVIEW, ANALYSIS, AND INSIGHT

Alongside the intensifying climate change, the regulatory requirements regarding companies’ climate disclosures are rapidly evolving. Many reporting guidelines, which can be applied voluntarily, have emerged while regulatory disclosure mandates were almost absent. It is constructive to focus companies’ executives on climate change as an executives’ potential concern. Regardless of the point, the design and proliferation of many frameworks turn out to be confusing. Investors, issuers, and other interested parties complained because of the “alphabet soup” of guiding principles and rules and appealed for moving to converge and harmonize the relevant standards. The relevance of the climate-related disclosures as a significant part of the corporate reporting process proves to be of material significance to achieving disclosure efficiency and contributing benefit and usefulness to all society members and living beings. The “Report on Sustainability-related Issuer Disclosures” of the International Organization of Securities Commissions (IOSCO) prepared by the Sustainable Finance Taskforce published in June 2021, stated that, “There is an urgent need to work toward improving the completeness, consistency, comparability, reliability, and auditability of sustainability reporting.” The Report focuses on the priority areas[7] for future actions and improvements in corporates’ sustainability-related disclosures – to encourage and promote consistent and coherent standards on a global scale, to promote and endorse comparable (matching) disclosure descriptions and metrics, and ultimately, to apply coordinated (matched) approaches to the development of disclosure policies. IOSCO supported the forward-looking approach and efforts of the Trustees of the IFRS Foundation (based in London) to establish an

[2] Ibid.
[3] The so-called “anthropogenic factors” and their aggressive influence refer to the totality of human activities that cause environmental change. One of the negative effects of the impacts of the anthropogenic factors is the alteration of the habitats of organisms that threatens their existence.
[4] In May 2019, António Guterres visited Tuvalu Island to receive a realistic idea of how nations in the Pacific Ocean can be affected due to the sea level rise.
[5] United Nations (UN). UN Environment Programme, available at https://www.unep.org/explore-topics/sustainable-development-goals/why-do-sustainable-development-goals-matter/goal-13, last accessed on 30 July, 2022.
[6] The water, which is added from the melting of ice sheets and glaciers, causes sea level rise as well as the expansion of seawater because of seawater warming.
[7] The IOSCO’s report sets out its vision for a global corporate reporting architecture to contribute toward achieving the priority objectives. The indicative timeline for delivering the priority improvements spans until June 2022.

international council and standard-setter at the Foundation, namely, the International Sustainability Standards Board (ISSB), intended for carrying out particular responsibilities and solving specific tasks concerning matters and standards on sustainability. The ISSB's target will be to develop a global baseline and contribute (to) and support the process of coordinating and harmonizing the sustainability disclosure requirements globally including climate-related matters. The Report presents the IOSCO's vision in what way the relevant improvements can be achieved by the ISSB. The Report is regarded as a crucial part of IOSCO's engagement with the IFRS Foundation. Successively, the Trustees of the IFRS Foundation announced the establishment of a new board on setting standards that would be designed for reporting on sustainability, on 3 November 2021. In April 2022, the ISSB published, the "Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*" and the "Exposure Draft IFRS S2 *Climate-related Disclosures* (also known as 'Climate Exposure Draft')". Both Exposure Drafts are built upon the worldwide known and commonly used recommendations developed by one of the leading organizations in that direction and up-to-date thematic area – the Task Force on Climate-related Financial Disclosures (TCFD). The new "Exposure Draft" of the proposed IFRS S2 is primarily focused on the disclosure of information about climate-related issues. It contains industry-based requirements for disclosure that are derived from the respective standards developed and set by the Sustainability Accounting Standards Board (SASB). The analytical review of the "Exposure Draft and comment letters: Climate-related Disclosures Consultation" supports that consideration (IFRS Foundation's Exposure Draft, July 2022)[8].

On 21 March 2022, the supreme regulatory institution in the regulation of financial reporting in the United States of America (Herdman, R., 2002), namely, the U.S. Securities and Exchange Commission (SEC) issued its proposal for new rules on disclosure relating to climate designed for applying by both U.S. public companies as well as foreign private issuers.[9] The proposed rules fall within the statutory authority of the SEC. The SEC's proposal introduces a substantial change concerning the disclosure of information on climate-related matters. The new suggested rules will require almost all of the companies that file with the SEC to disclose certain typologized information around their risks related to climate, especially those that most probably will have material impacts on their businesses, operational results, financial positions, and greenhouse gas emissions (GHG). Regarded as the cornerstone of the proposed rules, GHG emissions turn into a generally accepted and commonly used metric for assessing a company's exposure to risks. Consistent with the proposed rules, certain metrics related to climate will be required as a compulsory requisite in the audited financial statements. The newest requirement for financial statement disclosures of climate-related metrics is considered a pioneering one.

In the European Union, the organization that supports technically the European Commission (EC) is the European Financial Reporting Advisory Group (known as EFRAG)[10]. In April 2022, the EFRAG issued relevant guidance containing comprehensive (wide-ranging) requirements for disclosure on sustainability-related issues addressed to the European Commission (EC) because it was expected that the Commission (EC) has completed its directive on sustainability. The new EU "Corporate Sustainability Reporting Directive" (abbreviated as CSRD) will amend the previous one, the "Non-financial Reporting Directive" (NFRD) namely – the Directive 2014/95/EU[11]. The new CSRD will spread out the existing requirements (in the EU) for reporting on sustainability concerning the EU companies, namely those requirements introduced by the previous NFRD, in order to include more companies, topics, and subject matters, and to require disclosures that are much more detailed.

The recently formed IFRS Foundation's International Sustainability Standards Board (ISSB) is an institution that has no legal authority to oblige certain companies to disclose. The ISSB sets standards at an international level. The ISSB's key role is to create and promote the complete application of its standards on sustainability that different regulators can adopt, or not and subsequently can implement or use in an alternative way in rulemaking processes in the respective jurisdictions.

In the United States, the SEC is the highest institution that has the legal authority to promulgate and enforce the rules of implementing the laws on securities. The SEC's authority is limited to public companies. The SEC principally requires substantial fulfilling of the financial impacts criteria that should be disclosed in the 10-K. The U.S. SEC focuses primarily on protecting investors in public companies in the USA, whose securities are admitted

[8] IFRS Foundation 2022. "The Exposure Draft" is available at https://www.ifrs.org/projects/work-plan/climate-related-disclosures/exposure-draft-and-comment-letters, last accessed on 30 July 2022.

[9] In March 2022, the U.S. SEC proposed for public comment (open until June 17, 2022) new rules that would amend the corresponding ones contained in the "Securities Act" of 1933 – "Securities Act", and "Securities Exchange Act" of 1934 – "Exchange Act", and would oblige the SEC-registered companies to disclose information on climate-related issues.

[10] The EU and the private sector established EFRAG in 2001 to provide technical advice to the Commission on accounting matters. The EFRAG's members were also engaged in providing input into the development of IFRS sustainability standards.

[11] The EU Directive 2014/95/EU of 22 October 2014 obliged certain large undertakings and groups in the EU to disclose information on environmental, social, and governance matters.

to trading on a regulated market, and serving the public interest. Logically, the SEC's submitted rules are framed around the goal of ensuring that investors (will) have the appropriate information that they may need or probably will need to make informed decisions on investing. The suggested by the SEC new rules concerning climate are primarily targeted at requiring disclosures of information about the financial impacts of climate change on companies' activities and financial position.

The sustainability reporting standards developed and submitted by the EFRAG will provide the normative basis for the forthcoming obligatory implementation of disclosures on sustainability that are simultaneously required by the newly proposed EU Corporate Sustainability Reporting Directive (CSRD). The EFRAG's proposals (open for comment until August 8, 2022) are based on the principle of double materiality unlike the SEC's focus and proposal mostly targeted at protecting investors. In comparison, the standards suggested by the EFRAG focus on both subjects: how matters regarding sustainability affect companies and how companies' activities and emissions influence the environment, its components, and all society members. *"Climate-related risks and opportunities arise from an entity's impacts and dependencies on natural resources, and the key relationships, it maintains that may be positively or negatively affected by those impacts and dependencies,"* (IFRS Foundation, "Basis for Conclusions on [draft] IFRS S2 Climate-related Disclosures, BC53, Exposure Draft", March 2022). Therefore, the EFRAG's proposal has a wider remit due to the broader CSRD's scope relating to wide-ranging issues –environmental, social, and governance, extending beyond the SEC's proposed rules strictly focused on climate.

The new SEC's proposal relates to all SEC-registered companies "including foreign private issuers even those with no publicly listed equities," (Sullivan & Cromwell, LLP, 2022, p. 1). The SEC's proposal "would require U.S. public companies and foreign private issuers to dramatically expand the breadth, specificity, and rigor of climate-related disclosures in their SEC periodic reports and registration statements" (Sullivan & Cromwell, LLP, 2022). Azzouz and Brisson-Félix thoroughly discussed 2022 the essence and specificity of the proposed rules as well as the radical change in SEC's approach to developing its relevant requirements. The authors highlight and specify that SEC's rules "mark a significant departure from the SEC's traditional principles- and materiality-based reporting framework and move towards a prescriptive climate-related disclosure system" that requires obligatory disclosure of detailed wide-ranging information regardless of its materiality. That can be reasonably considered "a quantum leap in the US regulation unprecedently prescriptive", regarded as an important consideration in Azzous and Brisson-Félix's view (Azzouz and Brisson-Félix, 2022). Another equally important consideration regards both complexity and actual costs that the concerned public companies will incur because of the implementation of the new rules. It can be reasonably supposed that the suggested rules if adopted will significantly "increase the cost and complexity of public reporting," (Ceres, ERM, and Persefoni Webinar representatives, 2022). In Sullivan & Cromwell's comprehensive report published in 2022, it is argued that in order to enable compliance, "companies will need to expend significant advance effort to enhance, among other things, data collection procedures (including from third parties in their value chain), and internal processes and controls, which will require substantial internal and external resources," Sullivan & Cromwell, LLP, 2022, p. 1). The new rules would require an audit oversight as well. Approximately 1,000 of those companies are smaller (SRCs). Under the present arrangement and structure of the proposal there exist a limited number of requirements for disclosure.[12] The EFRAG's proposal for ESRS will inform the EU CSRD disclosure rules. Therefore, it will eventually apply to all large companies in the European Union (EU) fitting two of the three criteria: 40 million Euros in net annual turnover; 20 million Euros in assets; and employees over 250. All large companies in the EU subject to EU CSRD will apply the EFRAG's ESRS, and companies listed on EU regulated markets except for listed micro-enterprises. The EU CSRD requirements concern an estimated amount of 49,000 to 50,000 companies. In comparison, the estimated amount of companies and groups across the EU that as large public-interest companies with more than 500 employees (including listed companies, banks, insurance companies, and other companies designated by national authorities as public-interest entities) should apply the EU's sustainability disclosure directive – the EU Non-Financial Reporting Directive (NFRD) effective at present, is about 11,000 to 11,700. As regards the ISSB's proposal (open for comment until July 29, 2022), ISSB Standards will be considered for adoption voluntarily by individual jurisdictions.

The SEC's, EFRAG's, and ISSB's proposals are based on the relevant framework introduced by the Task Force on Climate-related Financial Disclosures (TCFD). The crucial reason is that the recommendations on climate-related financial disclosures developed by the TCFD are "widely adoptable and applicable to organizations across [different] sectors and jurisdictions". The TCFD's recommendations are envisioned to "solicit decision-useful, forward-looking information that can be included in mainstream financial filings" (TCFD's "Recommendations:

[12] See the "SEC Phase-In Period" schedule.

overview, core recommendations, principles for effective disclosure, scenario analysis")[13]. The SEC focused on the four main pillars of the TCFD to structure its proposal. The TCFD's disclosure recommendations are organized around four thematic areas – governance, strategy, risk management, and metrics and targets. The core (essential) interrelated components of the TCFD's framework are reinforced by eleven additional recommended disclosures. That way the TCFD's framework is further developed and enriched with significant information on how to assess climate-related risks and opportunities. Such information favors investors, other stakeholders, and companies. The TCFD's recommended disclosures are briefly presented further adhering strictly to their relevant descriptions of the TCFD (TCFD's "Recommendations: overview, core recommendations, principles for effective disclosure, scenario analysis")[14]. On the subject matter of an organization's *governance*, it is recommended to disclose and describe respectively: the oversight of climate-related risks and opportunities of an organization's board and the corporate governance representatives' role in the process of assessing and managing those risks and opportunities. On the subject matters of an organization's *businesses, business strategy or strategies, and financial planning* – where and when the relevant information is *material* – it is recommended to disclose and describe correspondingly: the identified climate-related risks and opportunities specific to the organization over its short-, medium-, and long term development and activities; how climate-related risks and opportunities specific to an organization impact its businesses, strategy or strategies, and financial planning; and the resilience of an organization's strategy or strategies, considering different climate-related scenarios, including a 2 °C scenario or lower. On the substantial question of how or by what means or methods an organization *identifies, assesses, and manages climate-related risks*, it is recommended to disclose and describe respectively: how, by what means or methods an organization identifies and assesses climate-related risks; processes, methods, and techniques applied to manage climate-related risks; and in what ways those specific processes, methods, and techniques are incorporated into the organization's management of risk. On the subject matter of *the metrics and targets* used – where and when such information is *material* – it is recommended by the TCFD to disclose and describe respectively: the metrics used to assess climate-related risks and opportunities consistent with its strategy or strategies and process of risk management; the greenhouse gas emissions and related risks falling under the Scope 1, the Scope 2, and (if appropriate) under the Scope 3; and the targets used to manage climate-related risks and opportunities, and performance against targets.

In addition to the four main pillars supporting the TCFD's 'Recommendations', the EFRAG's ESRS and ISSB's proposals incorporate the briefly described here essential (underlying) recommendations for the eleven disclosures that are initially designed, developed, and introduced due to the efforts of the worldwide known and influential organization – the TCFD. Moreover, EFRAG's ESRS and ISSB's proposals introduce additional requirements. In addition, the two proposals suggest either different definitions of disclosure or different positions with regard to some of the components. The EFRAG's proposed ESRS standards recommend disclosure of relevant information required with regard to climate-related risks and opportunities in the manner the TCFD has framed and followed in the TCFD's 'Recommendations' and requires companies to disclose the impacts of their activities and emissions on the environment, its components, and society. This is because of the necessity to comply legally with the EU double materiality concept and the EU's recent directive on sustainability reporting that promulgates it. Otherwise, the EFRAG's ESRS and ISSB's proposals are completely aligned with the TCFD's guidance.[15]

The U.S. SEC applies a holistic approach to inventing and introducing new rules proposed for the disclosure of information referring to climate-related metrics, targets, and, if decided by officials, opportunities, and the SEC's proposed rules reflect exactly its particular (specific) approach. SEC's proposal exceeding 500 pages contains and suggests a plentiful variety of rules and that way covers large and wide-ranging typologies of information on climate-related matters. The SEC's proposal contains principles-based disclosure requirements combined with prescriptive ones. For example, in case a company has previously identified, determined, or fixed particular targets, objectives, or goals, or in case a company has done scenario analysis – in such circumstances, more detailed disclosures are required (The SustainAbility Institute by ERM and Persefoni AI, 2022, p.10). The EFRAGS's ESRS proposal regarded as the most prescriptive and detailed of the three ones (The SustainAbility Institute by ERM and Persefoni AI, 2022, p.10) is aligned with the TCFD guidelines as well; however, the ESRS Exposure Draft significantly adds some significant details to the disclosure descriptions recommended by the TCFD. The reason is that the ESRS Exposure Draft incorporates the new EU's directive philosophy underlying the double materiality concept into its legal framework. The EFRAG framework contains key performance indicators that are sector-

[13] More detailed information available at https://www.fsb-tcfd.org/recommendations/#principles-for-effective-disclosure and https://www.fsb-tcfd.org/recommendations/#scenario-analysis, last accessed on 31 July 2022.
[14] Ibid.
[15] The SustainAbility Institute by ERM ('ERM') and Persefoni AI (2022), "The Evolution of Sustainability Disclosure Comparing the 2022 SEC, ESRS, and ISSB Proposals", 2022, pp. 1-27.

agnostic as well as sector-specific ones, incorporates particular examples of disclosure of data and information on specific metrics, impacts, and formats, and similarly to the other discussed frameworks requires scenario analysis. The proposal of the IFRS Foundation's ISSB in London also aligns with the TCFD guiding 'Recommendations'.

As regards the disclosures concerning greenhouse gas emissions, all discussed proposals strictly follow the TCFD guidance. As it is known the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard[16] provides the most widely used greenhouse gas accounting standards across the world. The U.S. SEC, EFRAG, and ISSB and their proposals use the greenhouse gas accounting standards and rules as determined by the GHG Protocol Corporate Accounting and Reporting Standard but include inherent to themselves concept of scopes and methodology. Equally, all three proposals require companies concerned to disclose information about the greenhouse gas emissions measured in metric tons of CO_2 equivalent falling under Scope 1 and Scope 2 as the Greenhouse Gas Protocol recommends it. With regard to the emissions falling under Scope 3, disclosures are required by both the EFRAG's ESRS and ISSB proposal and are also required by the SEC under conditions – in case emissions under Scope 3 are material or in case a company has fixed targets to reduce emissions encompassed by Scope 3 (The SustainAbility Institute by ERM ('ERM') and Persefoni AI, 2022, pp. 1-27).[17] [18] A lot of countries planned to impose compulsory disclosure under the Task Force on Climate-Related Financial Disclosure (TCFD) totally or partially, including the UK (Ravindirane, J., and Girard, T., Natixis Corporate & Investment Banking, 2020) as well as many other countries from Europe, Africa, North America, South America, and Asia. Among those countries are Germany, France, Switzerland, South Africa, Canada, Brazil, Japan, Hong Kong, Singapore, and China). In June 2022, Mark Segal discusses that "contrary to certain other OECD countries, e.g., the UK, and New Zealand, the SEC does not specifically mandate reporting under the TCFD," (Segal, M., ESG Today, ESG Reporting, 2022).

The thorough examination of the three proposals and the analytically reviewed research studies discussing the issues that are central to the present article approves and supports our previous thesis that "the relationship between nature and the economy is rather complex, multi-aspectual, and unique due to the economic invisibility of nature and to other factors and impacts," (Oreshkova, 2013, p. 53). "Moderately optimistic assumptions could be made that the climate changes will drive the world towards a technological leap and will remain a challenge, which will most probably bring about innovations and improvements in technologies and the characteristics of the basic resources," (Oreshkova, 2013, p. 52).

3. CONCLUSION

The major motive or reason for the proposed rules – that climate change poses significant risks including financial – is obvious and unambiguous. The SEC, EFRAG, and ISSB persuasively methodically explain that there exists considerable evidence that supports the thesis. Under the burden of the challenges posed by climate change, investors increasingly demand more information – reliable and credible, about potentially existing physical and transition risks. Investors cannot always rely on adequate qualitative information on climate-related risks if ever they can. Moreover, investors are often misled through greenwashing.

Quite similar even identical subject matters and issues are the focus of the discussed frameworks – the SEC, EFRAG's, and ISSB's latest proposals. Even being analogous to a significant extent, significant differences remain. However, the proposals mostly differ regarding enforceability and enforcement, the jurisdictional scope, the relevant scope of substantive coverage and practical implementation, and the ranges of certain requirements at a detailed level. Probably the most important and fractious difference subject to deliberations among specialists and stakeholders regards the emissions falling under Scope 3 as well as the emissions that are outside of direct operational control of companies (emissions generated by suppliers of companies, or emissions generated from the use and disposal of products by companies' customers). The rules proposed by EFRAG and ISSB strictly adhere (to) and follow the TCFD's baseline and 'Recommendations'. The SEC's proposal requires disclosure on emissions falling under Scope 3 if those emissions are material, i.e., a judgment would be necessary, or if the company has identified and publicly stated a goal to reduce emissions falling under Scope 3 (Segal, M., ESG Today ESG Reporting, 2022) that would be a subject of professional evaluation as well. The SEC's proposal differs from the TCFD's proposal, as the latter requires disclosure of both climate-related risks as well as climate-related opportunities. The SEC requires reporting on climate-related risks, while the Commission (SEC) leaves disclosure on climate-related opportunities optional. The EFRAG and ISSB require scenario analysis to be applied in order to

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[16] The Greenhouse Gas Protocol and the relevant standard 'A Corporate Accounting and Reporting Standard' cover the seven greenhouse gases covered by the Kyoto Protocol and provide guiding rules for organizations required to prepare inventory of greenhouse gas emissions. More information is available at https://ghgprotocol.org/corporate-standard.

[17] The SustainAbility Institute by ERM ('ERM') and Persefoni AI (2022). "The Evolution of Sustainability Disclosure Comparing the 2022 SEC, ESRS, and ISSB Proposals", 2022, pp. 1-27.

[18] World Resources Institute. WBCSD. The Greenhouse Gas Protocol FAQ, further details available at https://ghgprotocol.org.

identify physical and transition-related climate risks adhering to the TCFD's guidelines. The SEC proposal does not (Segal, M., ESG Today ESG Reporting, 2022). Based on the double materiality concept the EFRAG's proposal obliges companies to disclose not only how sustainability issues affect a company's performance, but also the company's impact on the environment and society. The SEC's proposed rules primarily focus on protecting investors as regards financial risk and better allocation of capital and do not require disclosure based on the double materiality concept (Segal, M., ESG Today ESG Reporting, 2022).

Nevertheless, it is expected that the proposed rules will facilitate consistency and comparability of information on climate-related matters. Many public companies do not currently disclose information on climate-related risks, whereas other companies disclosing such information apply widely disparate approaches to disclosure procedures.

It is worthwhile to assume that according to the three submitted proposals, large companies should collect data beginning with the fiscal year 2023 in order to prepare to report by the following fiscal year 2024. However, heated debates and threats of litigation in the United States put the implementation timeline under pressure. Partial enforcement is expected as it is proposed by the SEC (Azzouz, M., and Brisson-Félix, A., 2022).

Another principal consideration is that the SEC's proposal retains discretionary power for large public companies' officials engaged in high-ranking governance. Such circumstances may inhibit the continuing efforts to achieve greater transparency of information on climate-related risks inherent in the Proposals' main objectives. In addition, a thorough understanding of the key role of auditors would be of crucial importance. This could be constructive to achieving a higher degree of quality of information – financial and non-financial including on climate-related issues and restoring trust in its credibility.

Companies concerned by the new proposals should primarily focus on the TCFD framework to organize and carry out corporate disclosure on climate-related matters successfully. The benefits of improved corporate disclosures on climate-related issues can have different dimensions. The improved corporate disclosures can favor risk assessment, i.e., it can contribute to evaluating climate-related risks a company is facing more effectively. Moreover, disclosures can favor a company's suppliers and competitors. The capital allocation may be improved by making better-informed decisions regarding the questions of where and when to allocate capital and strategic planning based on better evaluations of risks and exposures over the short, medium, and long term. The arguments, views, and considerations expressed in the present article completely align with Michael R. Bloomberg's belief, the TCFD's Chairman, that "increasing transparency makes markets more efficient and economies more stable and resilient". However, how efficient the proposed rules would be if adopted, would depend on the priorities, awareness, responsibility, and expertise of high-ranking corporate governance and management. Even the best possible rules would be useless where there is a lack of concern, corporate responsibility, and good managerial will to enforce the suggested rules as they have been conceived and designed.

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