

Photo from Sylvera Field Data
Science Team, Belize Expedition

A Guide to Climate-related Disclosures

Introduction

For businesses and investors interested in environmental, social and corporate governance (aka ESG), a word that's been impossible to escape recently is 'disclosure'. It's a word that sparks a lot of questions:

- What does this actually mean?
- Why is it such a hot topic?
- How will affect businesses?
- How will it impact the voluntary carbon market?

This guide dives into these questions and covers everything we know thus far, and what we expect in the future.

What are climate-related disclosures?

Disclosures refer to the information that companies publicly provide about their operations, financial performance, and risks. The purpose is to provide transparency to investors and other stakeholders, so they can make informed decisions about the company. These can include annual reports, financial statements, and disclosures to regulators.

Climate-related disclosures specifically refer to reported information about climate change and environmental impacts. This can include data on a company's greenhouse gas emissions, its exposure to physical and transition risks from climate change, and its strategies for managing these risks and opportunities from a net zero transition.

The importance of disclosures

In an economy rapidly transitioning to climate change and mitigation, information about a company's climate impacts and risks is essential to assess its long-term viability. Information about a company's commitment to sustainability also has implications for its reputation - companies demonstrating climate leadership are favored by consumers and investors.

Key Initiatives

A number of initiatives provide guidance to regulators about what they should require companies to disclose, or to companies wishing to voluntarily disclose climate-related information.

Key Initiatives

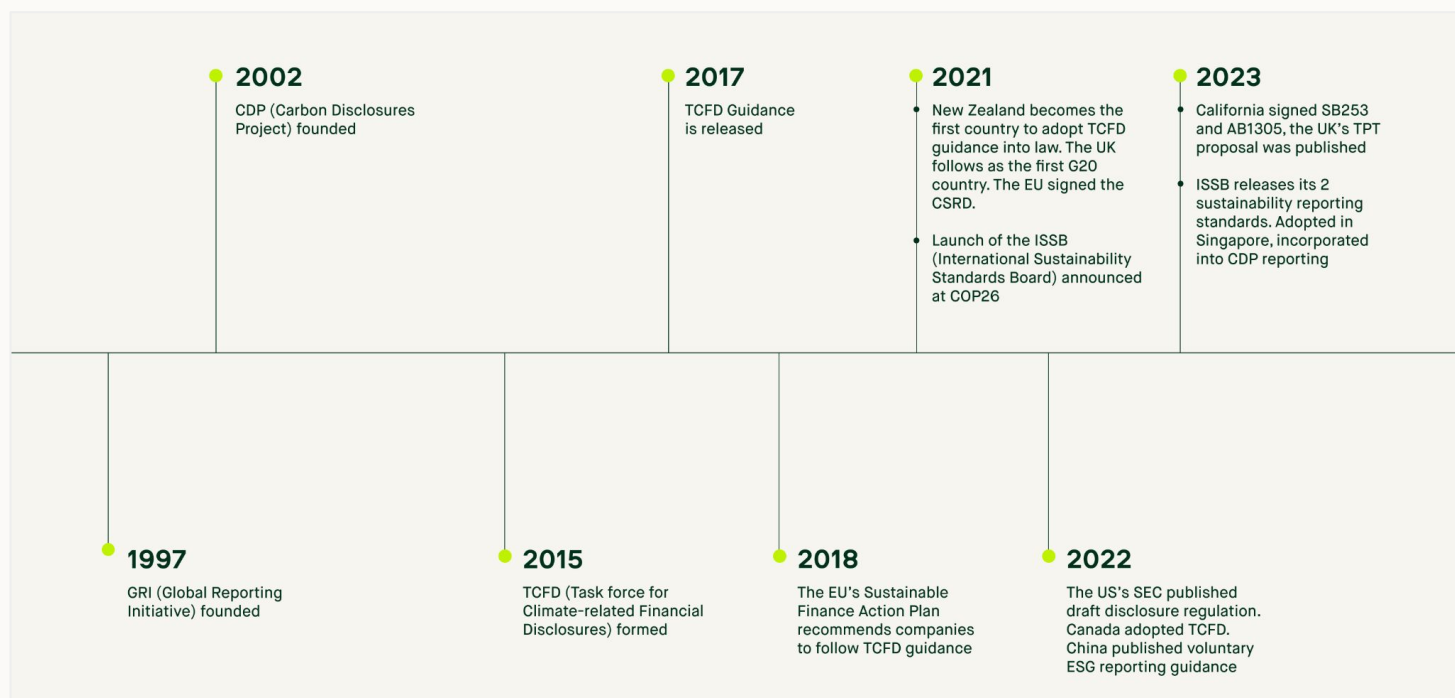
	TCFD: The Taskforce for Climate-Related Financial Disclosures	CDP: formerly The Carbon Disclosures Project	ISSB: International Sustainability Standards Board
Notes	The original guidance on climate-related disclosures, first published in 2017 and since adopted across 89 countries.	CDP's disclosure platform provides the mechanism for reporting in line with the TCFD recommendations. A number of optional questions also offer the opportunity for companies' disclosures to go beyond TCFD.	A standard-setting body established in 2021 to develop guidance on globally-aligned sustainability reporting standards. Their guidance for national regulators is based on, but goes further than, TCFD guidance.
Guidelines (linked in appendix)	Recommendations of the TCFD (2017) Implementing the Recommendations of the TCFD (2021)	CDP will incorporate ISSB guidance from 2024 2022 Questionnaire	IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (2023) IFRS S2 Climate-related Disclosures (2023)
Required to report emissions?	Yes, in line with GHG protocol	Yes, in line with GHG protocol	Yes, in line with GHG protocol
Required to report Scope 1&2?	Yes	Yes	Yes
Required to report Scope 3?	Required subject to materiality. All encouraged to do so.	Yes. Organization must account for its gross global Scope 3 emissions, disclosing and explaining any exclusions.	Yes
Required to report use of carbon credits?	No	Yes. Also options to disclose the purpose of purchasing those credits and whether they were retired.	Yes. Should disclose the intended use of carbon offsets in achieving emissions targets.
Credit details required	N/A	Number of credits, project type, project identification, standard.	Third-party credit verification; credit type including technology or nature-based, and avoidance or removal; and any other significant factors necessary to understand credibility and integrity.

Why all the attention now?

Work on climate-related disclosures has been ongoing since the 1990s. However, the topic is now receiving more interest than ever before. The last few years have seen leaps forward with the publication of voluntary guidance from the TCFD (Taskforce for Climate-related Financial Disclosures), adoption by regulators in countries across the world, and more and more companies choosing to voluntarily disclose climate-related information.

In the last 12 months, climate-related disclosures have become more relevant to the VCM as guidance has expanded to include requirements to disclose carbon credit activity. The ISSB (international Sustainability Standards Body) published two reporting standards. S2 requires companies to report on their planned use of carbon credits to offset greenhouse gas emissions to achieve any net greenhouse gas emissions target. This guidance has been incorporated into the CDP's reporting template, and regulators such as [Singapore's](#) have signaled their intent to adopt this guidance into regulation. Elsewhere, regulators in a number of jurisdictions, including the EU and California, are expanding climate-related disclosure rules to include carbon market activity. Meanwhile, the [US's SEC](#) (Securities and Exchange Commission) is still considering draft rules.

Timeline



An International Overview

Initiatives such as ISSB aim to bring international alignment and facilitate interoperability for transnational companies. Bear in mind that companies operating in these jurisdictions are often covered by this legislation, even if they are based elsewhere. In the transition period as countries consider these guidelines and go through the process of bringing them into law, each country has different requirements. So what is the state of play in key jurisdictions across the world?

The United States of America

There is not yet national-scale regulation requiring climate-related financial disclosures in the US. Upcoming SEC regulation will require some form of disclosure but the scope and timing is not yet known. Individual states, especially California, are developing regulation that is likely to cover a large number of companies.

SEC Enhancement and Standardization of Climate-Related Disclosures

What?

In 2022 the SEC proposed standardized rules, but these were met with resistance from some businesses and politicians concerned about the burden to companies.

When?

The SEC has been due to publish a final rule for several months, but we do not yet know when to expect it nor what it will say, although we expect its scope will be more limited than initially proposed.

“Investors representing literally tens of trillions of dollars support climate-related disclosures because they recognize that climate risks can pose significant financial risks to companies, and investors need reliable information about climate risks to make informed investment decisions.”

SEC Chair Gary Gensler



An International Overview continued...

California Assembly Bill 1305

What?

Climate-related disclosures are included in both recent Senate Bills 253 and 261, but of particular interest is Assembly Bill 1305 which covers VCM disclosures.

Who?

Companies making claims on the basis of credit use, as well as companies marketing or selling credits, have to report on the credits and their underlying attributes such as the standard and methodology used. It is not yet clear exactly the scope of coverage of the law, as it does not define exactly what it means to 'operate' or 'make claims' in California. Violations carry penalties of \$2,500 per day up to a maximum of \$500,000.

When?

The law will come into effect from January 1, 2024 and covers any companies that market or sell credits in California.

The New York Times

California Governor to Sign Landmark Climate Disclosure Bill

The first-in-the-nation law will compel major companies to publicly disclose their carbon dioxide emissions and could have national repercussions.

An International Overview continued...

The United Kingdom

The UK was a leader in adopting TCFD into formal regulation. However, its disclosure regime does not yet require reporting on carbon market activity. The FCA (Financial Conduct Authority) will consult on updating regulation next year and has [signaled](#) that these updates will be aligned with ISSB guidance. The regulation may also possibly expand in line with recent guidance from the TPT ([Transition Plan Taskforce](#)) which includes comprehensive disclosure requirements related to carbon credits.

Streamlined Energy and Carbon Reporting (SECR)

What?

SECR requires the disclosure of: total energy consumption, scope 1 and 2 emissions, an emissions intensity ratio, efforts taken to improve energy efficiency, and a description of the methodology used to calculate reported metrics.

Who?

All quoted companies in the UK as well as private companies and nonprofits that meet two or more of the following minimum thresholds: 250 employees, £36 million in annual turnover, or an £18 million balance sheet.

When?

The requirement is already in action for about 12,000 firms in the UK. The policy was implemented April 1, 2019.

Climate Related Financial Disclosures (CRFD)

What?

CRFD is broadly based on TCFD's framework and requires companies to report on eight considerations around a company's climate-related risks and opportunities. There is no explicit requirement to disclose carbon emissions, as all companies reporting under CRFD must also report under SECR.

Who?

All UK publicly quoted companies and any UK registered companies with at least 500 employees and £500 million in revenue.

When?

Companies have been required to include this information in annual report filings since April 2023.

An International Overview continued...

The European Union

The EU has been a first-mover for significant sustainability reporting regulation and typically sets the direction for other global regulatory regimes. Recent focus has been on uniting a fragmentary landscape of different national regulators and pieces of legislation.

There are several pieces of inter-related sustainability legislation moving through the European Parliament currently; the key piece being the CSRD (Corporate Sustainability Reporting Directive). [Recent news](#) suggests that some aspects of the ESRS (European Sustainability Reporting Standards) will be delayed by two years, but requirements around VCM disclosures will not be affected.

Corporate Sustainability Reporting Directive (CSRD)

What?

CSRD disclosures will occur alongside annual financial reporting and will be subject to audit assurance. Non-compliance will be addressed through a public denunciation; an order to change conduct; and financial punishment.

CSRD will require companies to disclose more than just scope 1-3 emissions and climate risk, and cover 12 components of ESG outlined in the ESRS. Pillar E1 covers climate change and requires companies to disclose the number of carbon credits purchased and retired for their own operations, as well as throughout the value chain. Project financing deployed to carbon credit projects must also be disclosed. Further disclosures will be required if a company has made a carbon neutrality claim or set a net-zero target, including the credibility and integrity of carbon credits used.

Who?

Over 50,000 companies will be required to report under the CSRD including all public EU-based companies and large EU-based private organizations. The CSRD is also extraterritorial, meaning non-EU domiciled entities with significant operations within the EU will have to comply with certain CSRD disclosure requirements, impacting around 10,000 non-EU firms.

When?

CSRD is already law and is currently being phased in. Entities that have already been subject to the CSRD's predecessor, Non-Financial Reporting Directive (NFRD), are preparing for their first filings in 2025, using 2024 data. All companies must obtain limited assurance from a third party for their first year of reporting.

Preparing for what's next

The direction of travel for disclosure regulation is clear. The stringency of sustainability reporting requirements is quickly coming into line with financial reporting. Although there remains some uncertainty around specific provisions and exact timelines, it is prudent for companies to proactively prepare for climate-related disclosure regulations. This can include defining data collection structures and developing reporting processes.

A particular area of increased stringency is the disclosure of VCM activity. The current alphabet soup of voluntary standards and regimes for carbon markets will eventually crystallize into legally enforceable regulatory regimes.

Sylvera has a suite of products that provide organizations with the data and insights necessary to find clarity on carbon credit quality and value across all projects stages and project types.

Appendix

Reference links

[Recommendations of the TCFD \(2017\)](#)

[Implementing the Recommendations of the TCFD \(2021\)](#)

[CDP will incorporate ISSB guidance from 2024](#)

[CDP 2022 Questionnaire](#)

[IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information \(2023\)](#)

[IFRS S2 Climate-related Disclosures \(2023\)](#)



Sylvera is a leading carbon data provider. Our mission is to incentivize investment in real climate action. To help organizations ensure they're making the most effective investments toward net zero, we build software that independently and accurately automates the evaluation of carbon projects that capture, remove, or avoid emissions. With Sylvera's data and tools, businesses and governments can confidently invest in, benchmark, deliver, and report real climate impact. We're backed by renowned investors like Balderton Capital, Index Ventures, Insight Partners, LocalGlobe, and Salesforce Ventures.

To learn more about Sylvera, [contact us](#).

