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to Fix

The new rule, which passed March 6, requires large companies to disclose their emissions—but there's a major hole.

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By Adele Peters, Fast Company (TNS)

Climate change is an obvious financial risk for companies—hurricanes, extreme heat, wildfires, and other climate-fueled disasters can destroy infrastructure, shut down offices, and push up the cost of supplies. Companies with higher emissions also face the risk of more regulation and being replaced by cleaner competitors.

Two years ago, when the Securities and Exchange Commission (SEC) proposed a

After intense lobbying, companies now won't have to report "Scope 3" emissions, or the climate pollution that happens outside a business's own operations or energy use. That means that oil companies won't have to report the emissions from customers burning fuel in cars, and clothing companies, for example, won't have to report the emissions from growing crops or using fossil fuels to make materials.

"For most companies, their Scope 3 or supply chain emissions are the biggest component of their footprint," says Matt Fisher, head of policy at Watershed, a startup with a software platform that helps companies track emissions. "If you're not looking at the whole picture, you're really limiting the information that you have about your impact on the environment and the information you have to take strategic decisions about how you're adjusting what you do with your business based on climate risk."

Other emissions will only have to be reported if they're "material" to the business, a fuzzy term that businesses will be able to interpret themselves. "It means the company is deciding whether or not those emissions are relevant to their long-term business plans and, therefore, their investors," says Peterson. "And we would say that that it's pretty clear at this juncture in history that carbon emissions are absolutely material to companies and investors, full stop." The original proposal called for companies to report all emissions.

The SEC's rule will still provide some new data about climate-related risks for businesses, reported in a standardized way so that companies can more easily be compared. "We think it's important for investors to have a good rule that can be implemented and sustained, rather than a great rule that is never implemented," Steven Rothstein, managing director at investor group Ceres, told the *Financial Times*.

But the SEC rule is weaker than other climate disclosure regulation that's rolling out

and from your customers to disclose Scope 1, 2, and 3 emissions as well," he says. "Both in a regulatory and nonregulatory sense, the train has already left the station on Scope 3 disclosures."

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