The Climate Risk Disclosure Act of 2019

Investors lack access to basic information about the potential impact of the climate crisis on American companies. This creates enormous environmental and financial risks. The Climate Risk Disclosure Act of 2019 would require public companies to disclose more information about their exposure to climate-related risks, which will help investors appropriately assess those risks, accelerate the transition from fossil fuels to cleaner and more sustainable energy sources and reduce the chances of both environmental and financial catastrophe.

The Problem

The climate crisis has the potential to affect companies in multiple ways. First, climate change – through rising sea levels, more frequent extreme weather patterns, water shortages, increased resource scarcity, and its many other effects – directly threatens valuable company assets. Freddie Mac has stated that climate change appears "likely to destroy billions of dollars in property and to displace millions of people," which will produce "economic losses and social disruption . . . likely to be greater in total than those experienced in the housing crisis and Great Recession."

Second, global efforts to reduce greenhouse gas emissions or otherwise mitigate the effects of the climate crisis could dramatically affect the value of company assets. The Task Force on Climate-related Financial Disclosures has written that the reduction in greenhouse gas emissions "coupled with rapidly declining costs and increased deployment of clean and energy-efficient technologies could have significant, near-term financial implications for organizations dependent on extracting, producing, and using coal, oil, and natural gas. …In fact, climate-related risks and the expected transition to a lower-carbon economy affect most economic sectors and industries." Former Vice President Al Gore has noted that by ignoring the risk of a carbon bubble, investors "are exposing their portfolios to an externality that should be integrated into the capital allocation process."

The effects on the fossil fuel industry are likely to be most severe. To successfully limit an average global temperature rise to 1.5 degrees Celsius relative to pre-industrial levels – the ultimate goal of the Paris Agreement – energy experts estimate that the global community must dramatically reduce fossil fuel consumption over the next 30 years, with nearly 0% of electricity generated from coal and about 8% of electricity generated from gas by 2050, while also using carbon dioxide removal activities.

The market lacks information about companies' exposure to these risks and it appears to dramatically undervalue the potential impacts of the climate crisis. While the Securities and Exchange Commission (SEC) has issued guidelines suggesting that companies consider the effects of the climate crisis on company assets, it has not mandated any specific disclosures.

The Solution

We can't afford to wait any longer. The Climate Risk Disclosure Act requires public companies to disclose critical information about their exposure to climate-related risks. This bill directs the SEC, in consultation with climate experts at other federal agencies, to issue rules within two years that require every public company to disclose:

- Its direct and indirect greenhouse gas emissions
- The total amount of fossil-fuel related assets that it owns or manages
- How its valuation would be affected if climate change continues at its current pace or if policymakers successfully restrict greenhouse gas emissions to meet the 1.5 degrees Celsius goal; and
- Its risk management strategies related to the physical risks and transition risks posed by the climate crisis.

The bill directs the SEC to tailor these disclosure requirements to different industries and to impose additional disclosure requirements on companies engaged in the commercial development of fossil fuels.

The bill will help the market appropriately assess the risk of climate change, which will help push private actors and government actors to act more decisively to address the climate crisis. It will help promote financial stability. And it will accomplish this without expending a penny of taxpayer money.