Climate Risk Disclosure Act

Investors lack access to basic information about the potential impact of climate change on American companies. This creates enormous environmental and financial risks. The Climate Risk Disclosure Act requires 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 efficient energy sources, and reduce the chances of both environmental and financial catastrophe.

The Problem

Climate change has the potential to affect companies in two ways. First, climate change – rising sea levels, extreme storms, water shortages – 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 climate change 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." These "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 global warming to two degrees or less relative to pre-industrial levels – the goal of the Paris climate accord – energy experts estimate that at least 82% of global coal reserves, 49% of global gas reserves, and 33% of global oil reserves must remain unused over the next 30 years. A recent study projected that "stranding" these booked assets could "amount to a discounted global wealth loss of $1-4 trillion," with the United States at particular risk of seeing its fossil fuel industry "nearly shut down."

The market lacks information about companies' exposure to these risks and it appears to dramatically undervalue the potential impact of climate change. While the Securities and Exchange Commission has issued guidelines suggesting that companies consider the effects of climate change 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. It directs the SEC, in consultation with climate experts at other federal agencies, to issue rules within one year 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 Paris accord goal; and
- Its risk management strategies related to the physical risks and transition risks posed by climate change

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 climate change. It will help promote financial stability. And it will accomplish this without expending a penny of taxpayer money.