The Climate Risk Disclosure Act of 2021

Senator Elizabeth Warren and Representative Sean Casten

Climate change is an existential threat to our planet and poses severe risks for our economy. As Federal Reserve Governor Lael Brainard recently stated, "Climate change is already imposing substantial economic costs and is projected to have a profound effect on the economy at home and abroad...Financial market participants that do not put in place frameworks to assess and address climate-related risks could face significant losses on climate-sensitive assets caused by environmental shifts, by a disorderly transition, or both."

The Securities and Exchange Commission (SEC) has issued guidelines suggesting that companies consider the effects of the climate crisis on company assets, but it has not mandated that public companies disclose their exposure to climate-related risks. As a result, investors lack access to basic information about the potential impact of the climate crisis on American companies, creating enormous environmental and financial risks.

Valuable company assets are directly threatened by rising sea levels, more frequent and extreme weather patterns, and water shortages. Global efforts to mitigate the effects of the climate crisis – including new regulations, emerging technologies, and consumer behaviors – are also likely to dramatically affect the value of company assets. The effects on the fossil fuel industry are likely to be most severe. To successfully limit an average global temperature rise in this century 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.

The Climate Risk Disclosure Act of 2021 would reduce the chances of environmental and financial catastrophe by requiring public companies to disclose more information about their exposure to climate-related risks. By increasing market transparency, this bill will empower investors to appropriately assess climate-related risks and accelerate the market transition from fossil fuels to cleaner and more sustainable energy sources that mitigate climate change. While some companies have started to disclose their climate-related risks under a variety of voluntary reporting regimes, only a mandatory framework implemented by the SEC can ensure that investors receive the reliable, comparable, and consistent information they need to assess these serious risks.

The Climate Risk Disclosure Act 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. It will help the market appropriately assess the risk of climate change and push private and government actors to address the climate crisis with the seriousness that it deserves. Without costing the taxpayer a penny, this bill will help promote financial stability at home and abroad.