The SEC’s Time To Act
A New Strategy for Advancing U.S. Corporate and Financial Sector Climate Disclosures

By Alexandra Thornton and Andy Green   February 2021
Introduction and summary

Climate change poses major risks to U.S. companies, the domestic economy, and the planet. Those risks include the loss of jobs. The 2008 financial crisis resulted in the loss of more than 8 million jobs,¹ and the cumulative job losses from future climate-driven financial impacts could be even larger.² With many climate risks—such as hurricanes and wildfires—already materializing, investors, regulators, and the public need better information to evaluate the risks to companies and the financial system and take appropriate action in response.

The scientific community’s warnings about climate risks have intensified over the past decade, spurring a proliferation of frameworks and standards for companies that voluntarily commit to disclosing the risks that they face from climate change and the role their businesses play in contributing to a worsening climate. Many of these frameworks and standards cover other important environmental, social, and governance (ESG) issues as well, and most represent international efforts to improve disclosures with a broad array of participants, including corporations and financial institutions, nongovernmental organizations (NGOs), institutional investors, government working groups, and many more.

While the frameworks and standards reflect remarkable effort and provide a rich field of analysis and experience, it is widely agreed that the existence of so many voluntary frameworks and standards is not helpful and that a mandatory, common set of standards is needed.³ Moreover, there is a lack of standardization of the data, assumptions, and methodologies companies use to meet the standards, with much of this information being opaque. Clearly, the current path of climate disclosure will not provide the transparency that an increasing number of investors are seeking and, indeed, a properly functioning market requires—consistency of disclosures across time, comparability of disclosures across companies, and reliability of the information that is disclosed. Nor will the current path provide the information regulators need to ensure that all emissions are being disclosed across sectors, which is essential to managing the systemic risk of climate change and to ensuring fair, orderly, and efficient markets as the country transitions to a low-carbon economy.
To make progress in addressing the risks that climate change poses to companies and the stability of the financial system, the U.S. Securities and Exchange Commission (SEC) will need to develop a strategy for sorting through these frameworks and standards, while simultaneously taking critical steps forward in holding companies accountable for their role in addressing climate risk.

The SEC is well positioned to do so. Existing statutes already provide it with the authority to develop and enforce a common set of disclosure requirements around climate and other issues. However, since its 2010 guidance calling for companies to make climate-related disclosures, the SEC has relied on the flexibility of the materiality standard as a backstop for climate and other ESG disclosures, rather than decide which climate and other ESG disclosures public companies must make and how. The result has been the current state of affairs in which 10 years later, investors are still unable to obtain reliable, consistent, and comparable information on these matters. The time has come for the SEC to make some decisions.

In 2018, the Center for American Progress proposed an ESG action approach that called for the SEC to set certain line items for all public companies, set additional items via sectoral guidance, and look to private “materiality” standard-setters such as the Sustainability Accounting Standards Board to help companies flesh out their management discussion and analysis (MD&A)—where, unlike the other fact-based disclosure items, the disclosure seeks to enable investors to “see through the eyes of management” in how they evaluate risks and opportunities on an ongoing and forward-looking basis. The proposed framework also sets out the importance of accountability and enforcement, including by pointing to the importance of auditing and assurance, SEC staff comments on filings, shareholder proposal and voting rights, and enforcement actions.

This analysis builds on the work of the 2018 report, acknowledges the improvements and gaps in frameworks and standard-setting since then, and proposes a strategy for moving forward on climate disclosures. In addition, follow-up papers will address other important ESG disclosures, such as workforce issues, tax transparency, competition, and more.

The strategy advanced in this report shows how federal regulators can solve problems with the current state of climate disclosures and identifies appropriate next steps to ensure corporate transparency and accountability on climate-related risks for the benefit of investors and the public.
In summary, CAP recommends that the SEC move forward by setting climate and other ESG disclosures. On climate, CAP specifically recommends that the SEC, in partnership with other relevant financial regulators, take the following steps:

• Require public company climate-related disclosures and analysis, including disclosures of direct and indirect greenhouse gas (GHG) emissions and a range of climate-related risks; require companies to develop transition plans, targets, and sectoral adjustment strategies; and close the loopholes that allow larger companies to avoid public market transparency.

• Devote special attention to the financial sector in order to capture the systemic and investor protection risks of climate, through the mandatory systemwide disclosure of financed emissions.

• Take an all-of-agency approach to climate.
The current state of climate-related disclosure

In recent years, there has been a proliferation of new frameworks and standards for businesses to voluntarily disclose climate-related risks that could affect their operations and the planet. Many of those frameworks and standards extend to disclosures about broader environmental, social, and governance matters, as the importance of these issues to long-term market success becomes clearer. And most of these frameworks are international in origin and were developed through global consultations that included representatives from business, financial institutions, civil society, accounting and related professions, and government.

The following are some brief highlights of the multiple efforts aimed at improving climate and other ESG disclosures.

- The U.N. Principles for Responsible Investment (PRI), which were developed by the world’s largest institutional investors at the behest of then-U.N. Secretary General Kofi Annan in 2005, commit signatories to incorporate ESG issues into their investment decision-making, to report on their progress in doing so, and, specifically, to “seek appropriate disclosure on ESG issues by the entities in which [they] invest.” PRI now boasts more than 3,000 signatories—asset owners, investment managers, and service providers—representing more than $100 trillion in assets under management. It also requires certain ESG-related reporting mandates from its members.

- 2015 was a seminal year for climate and other ESG goals and disclosures. That year, the United Nations adopted the 2030 Agenda for Sustainable Development, which includes 17 global Sustainable Development Goals (SDGs). Decades in the making, the SDGs cover climate action, affordable and clean energy, decent work and economic growth, and several other issues. Importantly, there are 169 associated targets and 232 approved indicators under the goals. While the SDGs in some sense are aspirational goals, their adoption in 2015 and the specificity of the subsequently adopted targets and indicators was an inflection point toward greater cooperation of U.N. member countries on these issues—a fact that is apparent in the progress made on the SDG to decrease global poverty.
• Also in 2015, the G-20 asked the Financial Stability Board (FSB), an international body that monitors and makes recommendations aimed at promoting financial stability, to develop a framework for climate-related risk disclosure that could be used by financial institutions, companies, and investors. That year, the FSB launched the Task Force on Climate-Related Financial Disclosures (TCFD), which published its final recommendations—including guidance for the financial sector—in 2017. The TCFD provides a management structure for businesses to approach climate-related risks and is perhaps the most widely adopted framework calling for disclosure of climate-related risks. At the same time, it is high-level and explicitly leaves many of the details of standard-setting, as well as data and methodological development, to other standard-setters or to companies themselves.

While work on many frameworks and standards for climate disclosure began years before, interest in and adoption of disclosure frameworks and standards blossomed after 2015, spurred on by increasingly dire reports from the Intergovernmental Panel on Climate Change.  

• Founded in 1997, the Global Reporting Initiative (GRI) is an international independent standards organization started by Ceres, a leading sustainability nonprofit, and others. It has been setting standards around environmental accountability since 2000, which expanded to include social and governance standards as well. Its sustainability reporting standards, in place since 2016, may now be the most widely used sustainability standards. The GRI flexibly asks the reporting entity to explain its approach to materiality and takes a broad view of items to be disclosed, thus providing information useful to a wide range of corporate stakeholders seeking to evaluate corporate risks and impacts.  

• The European Commission’s Non-Financial Reporting Directive (NFRD) was a 2014 European Union legal mandate that, via national implementation, required large publicly listed companies as well as large banks and insurance companies—whether listed or not—to begin disclosing in 2018 information on four sustainability issues in a nonfinancial statement as part of their annual public reporting. In 2020, the commission followed up with a consultation, referenced below, to gather information and stakeholder views on the directive.
• Also in 2018, the Sustainability Accounting Standards Board (SASB), originally formed in the United States in 2011 and now operating internationally, completed its sector-by-sector sustainability standards, recommending that companies disclose the financial effects of sustainability in a manner similar to, and subject to the same rigor and internal controls as, traditional financial disclosures.17 SASB’s process is consensus-driven, with representatives from investors, corporate issuers, and professional services firms. In November 2020, SASB announced that it is merging with the International Integrated Reporting Council, discussed below, to form the Value Reporting Foundation.18

• The international nonprofit CDP (formerly the Carbon Disclosure Project) sends detailed questionnaires covering climate, forests, and water security to thousands of companies, cities, states, and regions annually, compiling the information for use by investors, purchasers, and city stakeholders.19 Launched by CDP in 2007, the U.K.-based Climate Disclosure Standards Board (CDSB), an international consortium of business and environmental nonprofits, published its updated framework for reporting environmental and climate change information in 2019. According to its website, 374 companies across 32 countries are using its frameworks.20

• The International Integrated Reporting Council (IIRC)—a global coalition of regulators, investors, companies, standard-setters, accounting professionals, academics, and NGOs—seeks to integrate capital allocation and corporate behavior in business reporting.21 In 2014, the IIRC convened the Corporate Reporting Dialogue (CRD), which seeks better alignment between the above frameworks and standards. The CRD conducted a survey of sustainability report preparers and users, regulators, and representatives of business, the audit profession, and NGOs through 13 roundtables in 12 cities across six continents, the results of which provided interesting insights, discussed below, that were published in its December 2019 report.22 The IIRC announced in November 2020 that it is merging with SASB.

• The Partnership for Carbon Accounting Financials (PCAF), which began in the pivotal year of 2015 as a project of 14 financial institutions in the Netherlands and is now expanding internationally, launched a consultation in 2020 of its accounting methodologies for financial institutions to measure and disclose the emissions embedded in their lending and investment portfolios.23 In November 2020, PCAF released its Global GHG Accounting and Reporting Standard for the Financial Industry.24 It is intended to promote enhanced comparability in emissions reporting across financial institutions, including banks, insurance companies, and asset owners and managers.
• In September 2020, the World Economic Forum—a Swiss-based NGO funded by its membership, which consists mainly of leaders from large companies—released a consultation draft, compiled with the assistance of the world’s largest accounting firms, of a consolidated set of “stakeholder capitalism” metrics and recommended disclosures. Drawn largely from existing frameworks, they are intended to enable companies across industry sectors and countries to highlight their contributions to SDGs and “commitment to long-term sustainable value creation.”

• In a notable development, the International Financial Reporting Standards (IFRS) Foundation—which oversees the International Accounting Standards Board (IASB), an independent group of experts who develop the International Financial Reporting Standards—announced in September 2020 that it is actively considering how to incorporate technical ESG metrics into its standards, likely through the creation of a parallel Sustainability Standards Board. IFRS is the international corollary to the generally accepted accounting principles (GAAP) administered by the Financial Accounting Standards Board (FASB) in the United States; it also serves as the foundation for many foreign national accounting standards, including those in the European Union and Australia. Because accounting standards are generally mandated by a country’s securities law, accounting standard-setters play quasi-governmental standard-setting roles. In the United States, FASB and its parent foundation are funded by assessments against the accounting industry mandated by statute and are overseen by the SEC. In contrast, the IFRS Foundation is largely subject to voluntary funding, including significant amounts from the accounting industry. Regulators exercise some oversight through a multinational monitoring board.

• Finally, in September 2020, the CDP, CDSB, GRI, IIRC, and SASB committed to working together toward a global comprehensive corporate reporting system and to engaging with the IFRS Foundation, in their consultation mentioned above, and the International Organization of Securities Commissions—the international coordinating body for securities regulators globally—on how to connect sustainability disclosure standards to accounting standards. In particular, their joint statement highlighted the concept of “dynamic materiality,” whereby items move quickly from having an impact on society and the environment to having an impact on enterprise value creation. Although more flexible than the “dual materiality” concept embedded in the NFRD, such a focus remains more constrained than the U.S. approach to materiality, which looks at what a reasonable investor seeks to know. Given the heightened demands for ESG information from a wide range of investors, the marker for what a reasonable investor is has moved dramatically in recent years.
The amount of effort that has gone into the current array of frameworks and standards is remarkable and is providing, and likely will continue to provide, a rich field of analysis and experience. For several years and through countless consultations, stakeholders around the globe and across industry, civil society, the financial sector, relevant professions, and wealthy investors have all provided input through these frameworks and standards.

But the private sector has gone as far as it can go. Indeed, the European Union has recognized this, as demonstrated by its latest iteration of the NFRD consultation and now the engagement of the IFRS Foundation to stand up a Sustainability Standards Board parallel to the IASB. Both highlight the need for a coordinated set of governmentally mandated sustainability standards, with disclosures included in legally mandated financial reporting and subject to audit assurance. The United States faces the same situation.

Continued reliance on the existing frameworks described above will not lead to reliable disclosures that are consistent across time periods and comparable across companies, all of which is needed by investors, other stakeholders, and decision-makers, including policymakers. While most of the frameworks identify specific metrics that companies should use to report progress on various ESG goals, the metrics are different across frameworks and there are insufficient data and analytical tools to assess them. As the 2019 CRD report found, the various frameworks do not all use the same terminology or organize the disclosures and corresponding metrics in the same way. Their coverage ranges from climate-specific risks to sustainable development and corporate governance. They are designed for different audiences as well. And critically, because most reporting of this nature is voluntary, businesses can select the framework that suits their purposes or not disclose at all, leaving investors with little if any comparability across firms. Indeed, participants, stakeholders, and roundtable delegates in the 2019 survey led by the CRD agreed that voluntary frameworks were “a temporary fix to a problem that require[s] a more comprehensive regulatory solution.”

But the problem is more than just a need for a mandatory, common set of standards and metrics. As described below, there is no standardization of—or even transparency around—the factual inputs, which derive from basic scientific facts and measurements, that are entered into the algorithm for any given metric.
Points of consensus on climate-related disclosure

In addition to providing a rich field of analysis from a diverse set of stakeholders, existing frameworks and standards also demonstrate several useful points of consensus.

1. Pressure to make climate and other ESG disclosures will continue to increase

It is abundantly clear that the pressure on companies to make ESG disclosures will only increase, including in the United States. Climate-related events are already present and worsening. Meanwhile, the COVID-19 pandemic has exposed the risks of systemic events to companies and the economy, as well as the widening gap in income and wealth, the lack of protection for American workers, and continuing racial injustice. The imperative to address climate change and other ESG issues demands that progress occur on many fronts at once.

Europe is making significant progress on disclosure around ESG issues, and companies doing business across borders are aware of this. Moreover, in today’s digital economy, increasing numbers of U.S. businesses, even smaller ones, are operating across borders. Going forward, it will be difficult for businesses to maintain disclosures abroad while claiming they should not have to disclose in the United States. Nor will it be efficient or effective to maintain such a dichotomy.

As the risks of climate change continue to materialize and accelerate, investors will push harder for disclosures. They will not want to be left holding a portfolio subject to high climate or other ESG risk. This urgency will only grow, as the scientific consensus is that it is essential to get to net-zero emissions economywide by 2050.
2. Consideration of climate-related risks should be integrated into core business management operations and reporting

Until recently, business management largely viewed climate change as a tertiary consideration involving risks that were unlikely to occur in the near or medium term, if at all—a situation that many took, and many still do take, advantage of to claim lack of materiality. Some companies may have been unaware of the risks posed by climate change, while others may have been delaying action until government involvement created more certainty about the consequences of inaction.

Today, there is a growing awareness among many businesses that they need a climate strategy and that climate risks should be better incorporated into ordinary lines of management in order to manage risks and, in some cases, identify potential opportunities. The 2017 publication of the final recommendations of the Task Force on Climate-Related Financial Disclosures, along with subsequent TCFD reports, contributed significantly to widespread adoption of this viewpoint. Established by the G-20’s Financial Stability Board, the TCFD approach provides a road map for how businesses can integrate climate risk assessment into mainline areas of business operations—namely, governance, strategy, risk management, and metrics and targets. The TCFD’s work represents an important step toward climate-related risk disclosures, as it points to the idea that climate risks should be incorporated into traditional financial reporting.

Many governments and financial regulators around the world are adopting or supporting the TCFD recommendations, including in France, Australia, Canada, Japan, the United Kingdom, Chile, and the European Union. Supporting public and private sector organizations represent more than 80 industries in 50 countries. That includes more than 480 financial firms, responsible for $138 trillion in assets.

It is now commonplace for governments and private sector firms to use the TCFD recommendations, which refer to climate-related risks as either physical risks to assets posed by the changing climate or transition risks associated with economic and regulatory changes toward a low-carbon economy—adjustments such as changing customer preferences, increased energy costs, required expenditures to improve energy or water conservation and efficiency capabilities, and stranded assets. The TCFD reports contain extensive examples, found in appendices, of how these climate-related risks could affect specific categories of financial reporting. These include revenue, operating, and capital expenditures; tangible and intangible asset values; contingent, current, and long-term liabilities; and
equity financing, effectively giving voice to investors who have been calling for this type of information and clearly placing the onus on businesses to explicitly integrate consideration of the risks into their financial analysis.

3. There should be a common, mandatory set of standards and disclosures

For investors, who are demanding more information on climate risks and other ESG issues, disclosures that cannot be compared across companies have limited usefulness. Even less useful to investors are companies that simply do not disclose or that disclose in incomplete or misleading ways, which has proven to be the case under today’s voluntary, fragmented approach. As recently as November 2020, the TCFD once again found widespread failure to disclose, with only 42 percent of companies over $10 billion in market capitalization disclosing some climate risks according to the TCFD framework.

Businesses, too, have their own challenges. Even the largest and most profitable ones are confused and frustrated by so many voluntary frameworks and standards, which was another finding of the Corporate Reporting Dialogue survey. Businesses face the prospect of being evaluated by multiple frameworks based on metrics that are not standardized.

The lack of a single set of core disclosures, at least within each regulatory jurisdiction, also tends to favor bad actors who can claim the rules are not consistent or simply adopt boilerplate disclosures. A level playing field in which all firms are required to meet the same disclosure standards using the same data and methodologies would flip the script and reward companies that are innovating to meet ESG goals. In addition, the multiplicity of disclosure frameworks and standards represents a barrier to ESG engagement by small and medium-sized companies.

4. Reliable, consistent, and publicly available data and methodologies are needed for measuring progress toward standards

Suppose two firms disclose the exact same standards and metrics but draw from different underlying data sets. Are the results comparable? Even if the two metrics were drawn from the same underlying data, suppose each firm translates the metric (emissions financed, number of assets in climate flood zones, etc.) into
financial impact numbers using a different methodology—for example, one based on revenue and the other based on a different measure. Are they comparable? Even if both firms use revenue to normalize the data, what effect does the fact that one company has higher pricing have on the comparability of the metrics?

For investors, disclosures that are not based on the same reliable data and methodologies have limited usefulness—even if those disclosures purport to meet the same common standard. The TCFD recognized this problem. Indeed, respondents to the 2019 CRD survey referred to above “underscored that both preparers and users believe the different metrics and methodologies employed by the Participants’ frameworks and standards … pose a hinderance to effective reporting.” As one investor mentioned in the CRD report put it: “Data that is consistent in definition to allow meaningful analysis and comparisons across companies and sectors [is] a key challenge.” Almost every risk metric in any framework or standard gives rise to this challenge—that is, the challenge of which underlying data to use and what method to use in translating those data into meaningful financial or other business terms.

Some frameworks and standards are too high-level to be useful. And while others call for more detailed metrics, there is a lack of common data and methodologies within and across frameworks and standards. Private sector firms have stepped in to provide data analysis and methodologies for a fee. But the source data used by these firms, as well as their methodologies, are proprietary. This “black box” approach seems likely to stymie progress toward consistent, reliable, and comparable climate risk analysis, rather than promote it. Its very proprietary nature will slow progress toward developing broadly available data and methodologies for climate-related disclosures.

Newer standards, such as the Partnership for Carbon Accounting Financials, mentioned above, and others, are beginning to address this data challenge. PCAF, for example, proposed data sources and methodologies that are available on an open platform, though the platform does not yet cover all assets. Moreover, PCAF is specifically focused on financial institutions’ Scope 3 or financed emissions—a critical metric for sure and one of many that investors seek. Still, it offers a model for how data and methodologies could be standardized for use in meeting climate disclosure requirements.
To be clear, the problem is not a lack of climate data; several domestic and international governments and organizations maintain extensive emissions and other climate data. The challenge is which data to use for any given metric and what methodology to use both in applying it to specific industry sectors and companies and in translating it into company financial reporting. The problem, in other words, is quintessentially a financial accounting one.

5. Regulators need to act

As the CRD respondents recognized, the current confused state of climate-related risk and other ESG disclosures cries out for a regulatory solution.

Government regulators are in the best position to select from existing frameworks and standards to create a common set of clear metrics. Existing statutes already provide U.S. financial regulators—in particular the SEC, but in some cases also the Federal Reserve Board and other regulators as well as state insurance regulators—with authority to develop and enforce disclosure requirements around climate and other issues. They can harness the expansive resources of existing government data to develop industry-specific publicly available data for businesses to use in assessing their progress toward meeting those metrics and any other private standards businesses commit to disclosing. Moreover, existing federal and state financial regulators have the knowledge and expertise to develop methodologies tailored to translating data into business- and investor-useful financial reporting. In performing these functions, regulators can facilitate the ability of firms of all sizes and types to participate in climate disclosure and thus speed progress toward urgent climate goals. Perhaps most important for investors is the fact that common metrics based on reliable data and standardized methodologies would greatly enhance the ability of a third-party auditor to ensure their accuracy.

Critically, regulatory action on sustainability disclosures must do much more than simply identify issues for disclosure. The results of the European Commission’s consultation on its nonfinancial reporting directive made that abundantly clear. The European Commission’s original Non-Financial Reporting Directive failed to select specific metrics from among the array of metrics found in existing private frameworks and standards; nor did it identify specific data and methodologies to be used in reporting on sustainability issues. Companies were free to use standards and data of their own choosing. As a result, preparers and users of NFRD reports who responded to the 2020 consultation on the directive predictably found many of
the same problems that the CRD survey found: a lack of reliability and comparability of the information reported and a need for a common standard. Respondents also expressed strong support for applying the disclosure requirements to small and medium-sized companies and for adding stricter audit requirements.

To address these problems, the European Commission expects to adopt a proposal in response to the consultation in 2021. It would make sense for U.S. regulators to be in dialogue with European counterparts now in order to maximize harmonization without being bound by their decisions should they not go far enough.

But U.S. regulators, in particular the SEC, which has authority over company disclosures generally, moved in the opposite direction on climate-related and other ESG disclosures under the administration of President Donald Trump. Even as the pandemic shocked the economic system, the SEC loosened rules for disclosure generally and failed to mention climate at all, then only cautiously dipped its toes into the water on other ESG issues such as human capital management and supply chain risks. The result is that management has even more discretion than ever to include or exclude items from their business analysis and reporting, reducing comparability and quality—including on ESG and especially on climate. The Trump administration’s approach may not have even helped companies much since discretion may create more risks for them. Standards set by the SEC help provide certainty and high-quality data disclosures that are consistent and comparable for companies and investors alike.

The SEC must be the locus for the debate and for action in this area. As the U.S. financial regulatory body charged with oversight of corporate disclosure, the SEC cannot avoid its statutory responsibility of setting corporate disclosure standards. Some have suggested that a primary role for setting climate or other ESG standards should be placed at a sustainability board affiliated with domestic or international accounting standard-setters. While there may be a supporting role for those entities to play, such as in fairly presenting how sustainability affects a company’s value, they cannot be a substitute for SEC rule-making to update corporate disclosures in line with the broader ESG needs of investors and the public today. Not only do accounting industry standard-setters have little to show in impact on climate or ESG concerns, they have, at least in the United States, resisted or delayed ESG concerns, such as country-by-country tax transparency as an accounting matter, for years. To that end, they are notable for their distance from public accountability and engagement, with nontrivial concerns around industry capture even where dedicated funding independent from industry control and leverage is provided to it, which is not the case at the international level.
While one global standard is an admirable goal, differences will always exist between markets. Staying in dialogue with European and Asian counterparts and other centers of ESG disclosure standard-setting to the greatest extent possible, the SEC must nevertheless develop and deploy its own climate and ESG disclosure expertise. In doing so, the venerable securities regulator will demonstrate its commitment to the investor protection needs of today’s markets and to an economy aligned with long-term value creation across all corporate stakeholders.

**TABLE 1**

The role of the U.S. Securities and Exchange Commission (SEC) in climate disclosures

Protecting investors and aligning capital markets with the long-term public interest are at the core of the SEC’s mandate

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<td>So they can track a company’s performance year over year</td>
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<td>So they know disclosures are not just greenwashing</td>
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The SEC can help by establishing specific metrics, beginning with greenhouse gas emissions, that must be disclosed annually, including parameters for where and how to disclose.

The SEC can help by requiring companies to make the same disclosures, at least within the same industry.

The SEC can help by requiring the use of standardized, audited, and transparent data and methodologies.

Principles for regulators going forward

In considering how to develop clear and simple rules for disclosure, regulators should keep the following principles in mind:

• **Empower investors, policymakers, and the public.** Disclosure of climate and other ESG factors should empower investors and other stakeholders to make smart investment decisions, protect themselves against risks, and engage with companies to advance their interests. At the same time, it should empower regulators, policymakers, and the public with the quality information they need to make policy decisions in the public interest.

• **Align capital allocation and public outcomes.** Disclosure should support the longer-term alignment of efficient capital allocation on the one hand and socially and economically positive outcomes on the other. The former reflects the financial impact on firms of climate and other ESG factors, including measures to address them. The latter involves a company’s impact on—and accountability for their role in achieving—societal and broader economic goals.

• **Use redundancy as a means to progress.** Regulators should recognize that the disclosure of climate-related risk information, including greenhouse gas emissions and financed emissions for the financial sector, is an important part of a larger network of actions that will be needed from the private sector, government, and individuals—both in the United States and globally—if urgent climate goals are to be met. The world fails to reach the goal of dramatically reduced climate emissions at its peril. Thus, it is important to establish multiple approaches to achieving the goal in the event that one approach falls short. For example, calculations of financed emissions need not all add up to a global total, but rather act as a relative measure between firms. If more than one firm is connected with the same emissions, both share responsibility and should be held accountable. Regulators should err on the side of reporting that is comprehensive, detailed, and comparable so that investors and regulators can evaluate whether all of the financing of any particular
step in the emissions cycle—such as fossil fuel production, oil refining, or cement production—is being adequately disclosed. Otherwise, countless emissions will fall through the cracks, along with hopes of slowing climate change.

• **Ensure fair competition.** At the same time, it would be unfair to require widespread adoption without ensuring that all firms are playing by the same rules for disclosure—that is, applying the same data and methodologies to arrive at climate disclosures, at least on a sector-by-sector or geographic basis. Government can most efficiently and effectively provide a platform of data and methodologies. Once firms are all playing by the same rules, competition can flow more freely and fairly, and pro-climate innovation will follow.
As SEC Commissioner Allison Lee has very clearly pointed out, the risks arising from climate change intersect in numerous ways with the commission’s areas of oversight, which include protecting investors, facilitating capital formation, and maintaining fair, orderly, and efficient markets. There are many actions that the SEC can take under its existing authorities to promote accountability and transparency on climate-related risks that public companies face or impose on society or the broader economy. In addition, the SEC should take a lesson from the European Commission’s Non-Financial Reporting Directive and select and mandate a handful of specific core disclosures that are urgently needed to make progress on climate change. Along with these steps, the SEC can strengthen accountability tools at its disposal and take other steps to counter the shifting of business activity away from accountability and transparency rules.

By starting with a core set of disclosures that climate experts and investors would agree are important, the SEC, with the help of other regulators—as discussed below—could help meet the most urgent needs on the country’s climate strategy while building the agency’s capacity and expertise around climate reporting and accountability. This would also begin to provide reporting companies the standardization in this arena that investors are seeking while giving companies the ability to focus resources on the most important disclosures. Meanwhile, the valuable work to align existing frameworks and standards could continue and inform governments going forward.

The SEC should complement a new set of mandatory corporate disclosures with an all-of-agency approach to integrating climate. Not only must the SEC bring climate expertise onto all of its advisory committees, it should also stand up dedicated climate staff expertise within each of its divisions and offices. From audit standards to credit ratings to municipal securities, there is tremendous climate-related work to do.
Importantly, a similar process should proceed in parallel or quick succession for other vital ESG topics, such as labor relations and human capital management, tax transparency, political spending, and international human rights. Such an approach would be consistent with the European Union’s approach to its sustainable finance agenda.58

Ultimately, it will take sustained commitment for the SEC to catch up with the needs of investors, the public, and the rest of the world. It can begin with the following steps:

1. Require public company climate-related disclosures and transition analysis

The need to reduce carbon and other climate-related emissions is urgent and requires all hands on deck. All public companies must begin developing and executing plans for reducing their direct and indirect carbon and other greenhouse gas emissions, as well as disclosing the physical and transition risks that climate change poses for their operations. Sadly, for many firms, this will not happen unless the SEC enforces existing guidance on disclosure of climate-related risks and begins developing a federal mandate for specific climate-related line items. The urgency of the climate goal cannot wait for firms to voluntarily join the effort. And even if all firms voluntarily began disclosing their emissions and climate-related risks, those disclosures would not be meaningful for investors without the ability to compare disclosures across firms and rely on their accuracy. Again, federal regulators can provide the leadership and structure necessary to take existing frameworks and standards to the next level and provide comparability and reliability.

The following are basic initial disclosures and analysis that the SEC should require of all public companies in the United States, so that investors and the public have the information they need to make investment and policy decisions.

Disclose direct and indirect greenhouse gas emissions
All public companies should disclose their direct and indirect emissions—scopes 1, 2, and 3—anywhere in the world in accordance with the Greenhouse Gas Protocol. The emissions disclosure of all public firms should include negative emissions—the increase in future emissions resulting, for example, from deforestation activities—across the firm’s supply chain.
Under the leading accounting standards for greenhouse gases, carbon and other GHG emissions are divided into: 1) direct emissions, such as fuel the company burns to heat its buildings and run its vehicles; 2) indirect emissions from electricity the company consumes; and 3) other indirect emissions from up and down the value chain, such as outsourced activities and emissions that occur in materials or products before the company acquires them and after it sells them. These are called Scope 1, 2, and 3 emissions, respectively.

Disclosing Scope 1 and 2 emissions is vital for enabling boards and management to set and be held accountable to GHG emission reduction targets. While changing business operations may or may not be challenging depending on the circumstances—hence the importance of sectoral adjustment strategies, as discussed below—the disclosure of these data is not particularly difficult. According to the Task Force on Climate-Related Financial Disclosures, 26 percent of the largest companies it surveyed disclosed these data in 2019. This is far from enough, but it also shows that it is not too difficult or costly; to the contrary, cost-sensitive companies are showing just how seriously they take the efficiencies that can be gained, for example, from lower-cost energy alternatives. Requiring that companies disclose to investors and the public their GHG emissions would only further that trend.

The importance of including Scope 3 emissions for the financial sector—often called financed emissions—is discussed under recommendation 2 below. For energy sector companies, the SEC should establish sector-specific standards for the reporting of Scope 3 emissions for the eventual combustion of the fossil fuels they sell, ensuring that all fossil fuel-related emissions are disclosed. For other companies, a regime for disclosure of Scope 3 emissions might take longer to set up, given the complex web of supply chains throughout the economy and the challenge of each business obtaining emissions information from indirect sources up and down the supply chain. Nevertheless, Scope 3 disclosures could be phased in beginning with—or limited to—industries where data are available and companies are of significant size.

Disclose climate-related risks
All public firms, including financial institutions, should disclose climate-related risks associated with their operations. Following up on its 2010 guidance, the SEC should make clear in further guidance that it expects such disclosure to, at a minimum, be compliant with the approach developed by the Financial Stability Board’s TCFD. It should further state its intention to identify specific additional metrics
issuers should disclose and encourage issuers, in the interim, to make additional
disclosures pursuant to one or more of the existing climate metrics frameworks.
There have been positive trends toward aligning standards, as mentioned above.
However, the SEC needs to do more to facilitate alignment and move quickly to
engage in rule-making to ensure true comparability across companies. In that
process, the SEC should require that those disclosures include, at a minimum,
itemized metrics set by the agency. These SEC-required metrics should be compa-
rable across firms and could include items such as the following:

• **Water stress:** Scientists have identified regions of the world that are expected to
  have high or extremely high baseline water stress in the coming years. Firms should
disclose assets and facilities they have committed to owning or operating in each of
those regions over the next three, five, 10, and 20 years.

• **Natural disasters:** Other areas have high or extremely high potential for storms,
floods, or fire within the next three, five, or 10 years. Companies should disclose
assets and facilities committed in those regions.

• **Energy consumption:** Even as the United States adopts clean forms of energy
  production, it will be critical for individuals and businesses to reduce their energy
consumption. Companies should disclose their total energy consumption, broken
out by energy source and type.

• **Agricultural production:** Drought, water scarcity, heat, and pestilence are expected
to threaten existing agricultural production, including forestry, in the coming
years. Companies engaged in or dependent on agricultural production should
disclose whether that production is implicated by these threats and provide details
regarding risks arising from approaches to land use in the relevant vicinity, including
deforestation activities.

• **Water insecurity:** In many areas where climate change affects water supplies, social
tensions are expected to arise. Companies that offer water-intensive services and
products should disclose the aspects of their services and products that could be
affected by water insecurity issues.

• **Heat stress:** As average global temperatures rise, scientists predict that many areas
will be at high risk of heat stress for humans. Production or services located in those
areas of the world should be disclosed, along with ensuing vulnerabilities to labor
supply and the company’s approach to worker rights across the supply chain.
• **Diseases:** Scientists have identified areas of the world where climate change will increase the number and types of diseases that pose threats to human health. Companies should disclose whether and to what extent their business could be affected by these threats, including the governmental capacities in the relevant jurisdictions and the contributions and risks of the company to the fiscal capacities of the relevant jurisdictions.

• **Political unrest and migration:** The effects of climate change will exacerbate already existing political unrest and migration around the world. Companies should disclose underlying human rights risks across the supply chain and the potential for additional climate-related political instability and migration in their areas of operation.60

• **Overburdened communities:** Many communities of color and low-income communities are or will be disproportionately affected by climate change and other harms caused by the cumulative impact of toxic pollutants. Using environmental justice data from the Environmental Protection Agency (EPA),61 firms should identify and disclose their operations in environmentally vulnerable communities and disclose whether and how they engage with those communities and work to reduce the firm’s pollution and environmental impact on them.

These examples are intended to be relatively common across industry sectors and exemplary for investors and the public to understand. In addition, investors would benefit from many of the more detailed metrics that the Corporate Reporting Dialogue has mapped across the various private standard-setters.62

Progress on climate disclosures should be complemented by action making other ESG metrics mandatory as well, as the above climate-related examples highlight the connections to topics ranging from labor rights to human rights to country-by-country tax transparency. Over time, the SEC can tailor and expand its list of required itemized disclosures, possibly choosing to focus on industry sectors and issues of greatest urgency. Indeed, the work of the Sustainability Accounting Standards Board points to the need to consider structuring some metrics on an industry-by-industry basis.

Importantly, progress on the above itemized disclosures will depend in part on the ability of federal regulators to ramp up their capacity to convene experts and develop data and methodology protocols for calculating required disclosure metrics. While it is critical that all firms begin preparing for these disclosures,
realistically, the SEC may need to phase them in. For example, the commission
could stagger dates for smaller firms’ compliance and phase in levels of
enforcement, such as by increasing the scrutiny of firm disclosures over time. Even
before such climate-related items are required, the SEC should give feedback to
corporate issuers through the comment letter process on specific climate-related
risk disclosures based on its 2010 guidance calling for disclosure of these risks.

As with financed emissions disclosures below, the SEC could work with other
federal agencies, such as the Office of Financial Research, and experts to ensure
that underlying data and methodologies for specific disclosure metrics are
standardized and publicly available to all firms.

Require transition plans, targets, and sectoral adjustment strategies
In the section of the annual report where a company’s executives analyze
the company’s performance and future goals and approaches from their own
perspective—known as the management discussion and analysis (MD&A)—
the SEC should require the disclosure of the board and management strategy
regarding targets and performance for the firm’s decarbonization and GHG
reduction efforts. In particular, the SEC should require firms to disclose a
company transition plan that includes interim targets to accomplish a transition
to net-zero GHG emissions in accordance with the relevant international
commitment, but no later than 2050. Net-zero emissions economywide by 2050 is the widely accepted, science-based minimum action necessary to avoid the
worst impacts of climate change. Disclosure of the transition plan is central to
the priorities laid out by former Bank of England Governor Mark Carney in his
priorities for the critical 26th U.N. Climate Change Conference of the Parties
(COP26) in Glasgow.

Additionally, to the extent that a successful transition—especially with respect
to Scope 3 emissions—depends on sectoral adjustment up or down the supply
chain, disclosure should include strategies for supporting, and any obstacles to
engaging in, the necessary sectoral adjustments and ongoing compliance once
those strategies are in place.

The U.S. Treasury Department should play a role in supporting the incorporation
of these scientific targets into the financial regulatory architecture. It should also
support the development of necessary sectoral adjustment strategies, in coordination
with other federal agencies engaged in coordinating economic industrial strategies.
The dramatic decline in public companies and the rise of shadow securities markets without transparency or accountability to investors pose a challenge to climate transparency and accountability. The opacity of these private securities markets not only creates significant investor protection risks with respect to the investors in particular private companies, it also undermines efforts to protect all investors from a broader climate shock. The SEC should therefore consider requiring large private companies to provide certain climate-related information by tightening or conditioning exemptions from public company registration.

2. Devote special attention to the disclosure of financed emissions by the financial sector

The U.S. financial sector—banks, insurance companies, and asset managers and owners—controls the flow of tens of trillions of dollars in the global economy. As the authors have reported previously, by financing carbon emissions, the financial system is essentially digging its own grave. Yet the financial sector also has the capacity and sophistication to disclose and mitigate climate risks, including by accounting for the carbon emissions embedded in its portfolios of loans, insurance policies, and investment funds and by aligning those with the net-zero 2050 target.

For financial companies, the carbon and other GHG emissions attributable to the businesses to whom they provide services—whether loans, insurance policies, or investment funds—represent Scope 3 emissions; and they likely account for the largest amount of emissions associated with these financial firms. These financed emissions contribute substantially to the systemic risk of climate change faced by the financial sector. Thus, climate risk disclosure for the financial sector must especially focus on disclosing the contributions that financial firms themselves are making to climate change by financing, underwriting, or insuring carbon emissions and the strategies these firms are adopting to reduce those contributions. This approach recognizes that systemic risk has extraordinarily negative implications not only for investor protection, fair and efficient markets, and capital formation—the SEC’s vital mission priorities—but also for the stability of the financial system. As 2008 made extraordinarily clear, financial crises pose extremely serious harms to the U.S economy, threatening job loss, taxpayer bailouts, and political instability. This systemic approach to climate risk in the financial system also acknowledges that today’s investors are universal owners, often invested in broad-based portfolios where it is not possible to diversify away from the risks to any individual firm.
A growing number of committed banks, asset managers, and other financial institutions have been developing ways to estimate and disclose the emissions they finance. For example, the Partnership for Carbon Accounting Financials, which was set up by Dutch banks and is now working globally, has developed a platform to standardize data and methodologies that banks and other financial firms can use to estimate and disclose the emissions in their portfolios.

Importantly, financed emissions can be calculated differently from Scope 1 and 2 emissions and from Scope 3 emissions in other sectors. The EPA already provides data on the amount of greenhouse gases emitted by certain high-emitting industry sectors. Simply put, financed emissions can be estimated based on the percentage of each of these industries represented in a financial firm’s portfolios of loans, insurance policies, or investment funds. Such estimated approaches can be tightened and refined as public company climate disclosure becomes more widespread.

While all carbon dioxide emissions into the atmosphere have essentially the same global warming potential, certain financed activities are of special concern. Financing of broad asset categories that merely reflect the emissions intensity of generalized economic activity, such as credit card debt or home equity loans, do not appreciably increase emissions on the margins relative to other alternative investments. Investments in industries that produce, distribute, or intensively combust fossil fuels, however, do marginally increase emissions, especially when zero-emission alternatives are available. The SEC should prioritize disclosure requirements for the forms of finance that have the potential to substantially influence the level of emissions.

Financial firms are also in a position, through due diligence in the course of their financing transactions and through their relationships more generally, to secure emissions-related information directly from their clients. Hence, should they want to claim credit for improvements in performance, they can tap into that information for disclosure. In conjunction with the sectoral transition strategies noted above, such an approach would provide the right incentives for investors to support firms that are lending into a sectoral transition away from high-emission activities. And since financial firms’ incentive to encourage clients to improve emissions reduction applies equally to their private company clients, it provides a useful check against the trend of companies avoiding the public markets.
The SEC can achieve as close as possible to a federal mandate for disclosure of financed emissions by requiring it for publicly listed financial firms, including bank holding companies, insurance companies, and asset managers—covering publicly listed advisers and all the funds they advise. The SEC can also achieve these aims by requiring this disclosure for mutual funds and at least the collection of the data and provision to the SEC and other financial regulatory bodies, such as the Financial Stability Oversight Council and the Office of Financial Research, for hedge funds and private equity funds. This would ensure that all, or close to all, financial institutions are subject to the same disclosure rules, flipping competitive forces in a positive direction by rewarding firms that act to disclose. State insurance regulators can support the SEC’s actions to capture state-regulated insurance companies. In addition, the SEC can enlist the resources of other federal agencies, such as the EPA and the Office of Financial Research, to convene experts and ensure that data and methodologies are standardized and publicly available to all firms and that the resulting financed emissions information is collected across all firms and markets.

For publicly listed financial firms, financed emissions should be disclosed in the business description of annual financial reports to the SEC. The commission should also require additional disclosure—for example, by including so-called negative emissions, or the increase in future emissions that results when carbon-absorbing forests are cleared. At a minimum, qualitative disclosure can support enhanced transparency of these practices. The SEC should also require additional details, such as the maturity of investments in high-carbon sectors, the value and number of investments in new projects in high-carbon sectors, and details of investments in deforestation activities.

While PCAF members today include banks, insurers, and asset managers and owners of all sizes, disclosure of financed emissions could be phased in beginning with larger firms—bank holding companies, for example, with more than $100 billion in assets and asset managers with an appropriately scaled metric for assets under management. These firms have more resources and are more likely to have begun participating in efforts to disclose financed emissions. Their financed emissions exposures and transition plans are also more immediately pressing for investors concerned about financed emissions across the financial system. Additionally, smaller carbon-intensive financial firms heavily engaged in carbon-intensive financing activities, such as some smaller and regional banks that finance fossil fuel exploration, should be covered up front or early in the process.
Disclosure of financed emissions would enhance and complement the transition plans, targeting, and sectoral adjustments that would be required to be disclosed for publicly listed firms. These tools would be useful for banking and insurance regulators in their oversight of climate-related financial risks at firms and across the financial system. Those regulators should be examining transition plans and testing for policies and procedures and other compliance across firms, as well as deploying their independent regulatory stress tests to evaluate risks and help measure the level and approach to climate-related bank capital charges.73

Yet supervision and stress testing alone are not enough; indeed, their very complexity presents risks—as was the case with the use of internal modeling for bank capital requirements prior to the 2008 global financial crisis.74 Much like the leverage ratio in bank capital calculations, clear, objective, and publicly available measurements are vital additional protections to guard against abuse and ensure accountable progress. Financed emissions numbers on a firm-by-firm basis have the benefit of meeting that test and, when paired with straightforward targeting to bring those emissions down in compliance with scientific climate imperatives, can be a critical bulwark against further delays in climate action by the financial sector.

To that end, if the SEC does not proceed to act quickly, the Federal Reserve or other banking regulators should take actions under their own disclosure authorities to mandate the collection and disclosure of financed emissions information and the development of transition plans and sectoral adjustment strategies.75

3. Take an all-of-agency approach to climate

The recommendations above represent vital steps the SEC should take to protect investors and enhance the fairness and efficiency of the capital markets in the face of the looming climate crisis. But there are other important steps the SEC can and should take across its field of responsibility.

In addition to regulating companies’ participation in the securities markets, the SEC’s broad mandate includes jurisdiction over investment advisers and companies that invest on behalf of clients; intermediaries in stock and bond sales, such as broker dealers; credit rating agencies; stock exchanges; and more.76 These areas of responsibility give rise to other potential avenues for addressing the risks that climate change poses to companies and the financial system. As set forth in the CAP report “Modernizing the Social Contract With Investment Fiduciaries,” the SEC should
require investment advisers to disclose to their clients their processes for integrating climate risks into their analysis and investment guidance.\textsuperscript{77} The commission should also examine the methodologies that credit rating agencies use to develop their ratings and take steps to require them to incorporate climate factors.\textsuperscript{78}

In addition, the SEC should work with the Public Company Accounting Oversight Board (PCAOB) to fully incorporate climate into its audit regulatory functions, over which the SEC has statutory oversight responsibility. This should include developing expectations for assurance and completeness of information that could be disclosed in relation to or affected by climate risk. Investors should be assured that this information has been validated by a third party and that the assumptions and methodologies underlying disclosures have integrity and are reliable. With the PCAOB, the SEC can help ensure that climate disclosure information is consistent over time, reliable for investors, and comparable across companies.

As PCAOB board member Jay Brown has highlighted, climate and other ESG items should also be incorporated into critical audit matters generally.\textsuperscript{79} These auditor disclosures provide investors and the public with insight about the assumptions that go into the audit and the risks and concerns uncovered with respect to the audited company. Brown highlights that although critical audit matter requirements came into effect in 2019, only a handful of climate or ESG matters are being considered; yet where they are present, those climate or ESG matters revealed significant divergences between management and risk to investors, such as around the valuation and potential impairment of assets—say, a pipeline or other long-lived asset—and around reductions in net income not reflected in the financial statements.\textsuperscript{80}

The SEC should also reinforce climate and ESG incorporation more broadly within corporate disclosure and financial market operations through its whistleblower and enforcement priorities.\textsuperscript{81}
Conclusion

The growing urgency of the climate crisis calls for the United States to step up action to reduce greenhouse gas emissions and simultaneously prepare for effects that cannot be reversed. For public companies, this requires assessing and addressing physical risks to their operations as well as risks associated with the transition to a low-carbon economy. It is an all-hands-on-deck moment, and unsurprisingly, a growing number of investors are demanding information on climate-related risks from the companies they invest in, including how firms are managing those risks.

Domestic and international NGOs, partnering with private sector companies, financial institutions, investment advisers, academics, and others, have developed an impressive array of frameworks and standards over the past five to 10 years for public companies to use in disclosing climate and other environmental risks—as well as information about worker treatment, corporate political spending, international taxes, and risks to supply chains, such as those resulting from human rights abuses. Their remarkable efforts reflect a strong consensus that pressure to disclose will continue to grow and that consideration of climate-related risks, at a minimum, should be integrated into core business management operations and reporting.

But there is also consensus that reliable disclosures that are consistent across time and comparable across companies—features that are essential for investors and, indeed, for capital markets to align with climate goals—cannot be achieved by the private sector alone. A common, mandatory set of standards and disclosures is necessary, as well as reliable, consistent, and publicly available data and methodologies for determining progress toward those standards.

The SEC has already recognized the importance of climate disclosures to investors and has broad authority to bring reliability, consistency, and comparability to these disclosures. It should do so as soon as possible, beginning by ensuring that all public companies analyze and disclose climate-related risks to their operations in a manner consistent with the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures and by requiring disclosure of Scope 1, 2, and 3 emissions.
anywhere in the world in accordance with the Greenhouse Gas Protocol. Second, the SEC should require the financial sector to disclose the greenhouse gas emissions embedded in their loan, insurance, investment, and other portfolios. This disclosure should be in the business description of annual financial reports to the SEC and should include negative emissions associated with deforestation.

In addition, the SEC should work to advance other specific disclosure metrics drawn from existing frameworks and standards, while also working with the Office of Financial Research and other experts to develop reliable, consistent, and publicly available data and methodologies for all firms to use for those metrics. Finally, the SEC should take an all-of-agency approach to climate, including by incorporating climate into its oversight of investment advisers and companies, broker-dealers, credit rating agencies, and stock exchanges.

Simply put, it is essential for the SEC to develop climate-related disclosures in order to help align capital markets, investor demands, and the economy toward addressing the global climate crisis.

About the authors

Alexandra Thornton is the senior director of Tax Policy for Economic Policy at the Center for American Progress. Her previous experience includes serving as executive vice president of the Jane Goodall Institute and as tax counsel to former Sen. Tom Daschle (D-SD), then a member of the U.S. Senate Finance Committee.

Andy Green is a senior fellow for Economic Policy at the Center. Prior to joining CAP, he served as counsel to Kara Stein, commissioner of the U.S. Securities and Exchange Commission. His prior experience also includes serving as counsel to Sen. Jeff Merkley (D-OR) and staff director of the U.S. Senate Banking Committee’s Subcommittee on Economic Policy.

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Endnotes


7 Ibid.

8 See, for example, Ibid.


22 Corporate Reporting Dialogue, “Driving Alignment in Climate-related Reporting: Year One of the Better Alignment Project.”


32 Ibid., p. 10.


38 Ibid.

39 Ibid.


43 Green and Schwartz, “Corporate Long-Termism, Transparency, and the Public Interest.”


46 Bergman and others, “ESG Disclosures.”

47 See, for example, Financial Stability Board, “Task Force on Climate-related Financial Disclosures: Overview.” See also, Financial Stability Board, “Task Force on Climate-related Financial Disclosures: 2020 Status Report,” p. 51: “Furthermore, for metrics and targets to be useful for investors and other users, they should be defined and calculated consistently within an industry to ensure comparability.”


49 Lee, “Big Business’s Undisclosed Climate Crisis Plans.”


51 Ibid.


60 The SEC’s recognition of the importance of disclosing exposure to risks seemingly external to operations is not new. See, for example, Casebriefs, “In the Matter of Caterpillar, Inc,” available at https://www.casebriefs.com/blog/law/business-associations/business-associations-keyed-to-hamilton-control-and-management-in-the-publicly-held-corporation-business-associations-keyed-to-hamilton-business-associations-law-in-the-matter-of-caterpillar-inc-3/ (last accessed February 2021). In this case, the commission found that Caterpillar should have disclosed the fact that currency hyperinflation in Brazil and international exchange rates, which contributed to the company’s significant increase in revenue, were unlikely to recur.


70 Green and Schwartz, “Corporate Long-Termism, Transparency, and the Public Interest.”


73 Gelzinis and Steele, “Climate Change Threatens the Stability of the Financial System.”

74 Green, Gelzinis, and Thornton, “Financial Markets and Regulators Are Still in the Dark on Climate Change.”


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