GAO Highlights

Highlights of GAO-18-188, a report to congressional requesters

February 2018

CLIMATE-RELATED RISKS

SEC Has Taken Steps to Clarify Disclosure Requirements

Why GAO Did This Study

Impacts from a changing climate can pose serious risks to the global economy and affect many economic sectors, according to reports. Public companies are generally required to disclose certain risks in their SEC filings. In 2010, SEC issued guidance to clarify how existing disclosure requirements apply for climate-related matters.

GAO was asked to review (1) steps SEC has taken to clarify to companies their disclosure requirements for climate-related risks, (2) steps SEC has taken to examine changes companies may have made to their climate-related disclosures since the release of its 2010 Guidance, and (3) constraints SEC faces when reviewing climate-related disclosures and stakeholders' views of those disclosures.

GAO reviewed SEC's disclosure requirements, guidance, and reports on changes in climate-related disclosures; queried SEC's filings system to identify comment letters with issues on climate-related disclosures; identified examples of climate-related disclosures in companies' filings; and interviewed SEC staff and representatives of stakeholder groups, such as industry associations from five industry groups, and nonprofit organizations that work with investors. We selected these stakeholders because they either were from industries likely to be affected by climate change-related matters due to the nature of their operations, or have a key interest in climate-related issues.

Senior staff from SEC's Division of Corporation Finance generally agreed with GAO's findings.

View GAO-18-188. For more information, contact Michael Clements, (202) 512-8678 or clementsm@gao.gov, or J. Alfredo Gómez, (202) 512-3841 or gomezj@gao.gov.

What GAO Found

To help clarify to companies their disclosure requirements for climate-related matters, the Securities and Exchange Commission (SEC) issued the *Commission Guidance Regarding Disclosure Related to Climate Change* in 2010 (2010 Guidance). The 2010 Guidance was SEC's primary form of communication to clarify companies' climate-related disclosure requirements. In addition, SEC issued individual comment letters to specific companies on their climate-related disclosures. These letters are publicly available and companies can view these letters to understand SEC's assessment of a particular company's disclosures. Representatives from industry associations with whom GAO spoke stated that they consider the disclosure requirements for climate-related risks to be clear and have no need for additional guidance.

SEC issued two reports to Congress in 2012 and 2014 that examined changes in climate-related disclosures in select industries. SEC found that most of these filings included some level of climate-related disclosures and reported that there were no notable year-to-year changes. SEC staff also continue to periodically assess climate-related disclosures in addition to its regular disclosure review process. Additionally, in April 2016, SEC requested public input on modernizing certain business and financial disclosure requirements, including potential changes on reporting climate-related risks in SEC's filings. As of December 2017, SEC staff said they are considering recommendations for the Commission's consideration based on comments received.

SEC faces constraints in reviewing climate-related and other disclosures because it primarily relies on information that companies provide. SEC senior staff explained that SEC's Division of Corporation Finance staff assess companies' filings for compliance with federal securities laws—which require companies to disclose material risks—but do not have the authority to subpoena additional information from companies. Additionally, companies may report similar climate-related disclosures in different sections of the filings, and climate-related disclosures in some filings contain disclosures using generic language, not tailored to the company, and do not include quantitative metrics. When companies report climate-related disclosures in varying formats and specificity, SEC reviewers and investors may find it difficult to compare and analyze related disclosures across companies' filings. SEC has tools, mechanisms, and resources—including internal supervisory controls, regulations and guidance, a two-level filing review process, internal and external data, and staff training and experience—that help SEC staff consistently review filing disclosures, according to SEC documents and staff. Representatives of industry associations told GAO that they consider the current climate-related disclosure requirements adequate and no additional climate-related disclosures are needed. However, some investor groups and asset management firms have highlighted the need for companies to disclose more climate-related information. But, members of SEC's Investor Advisory Committee told GAO that investors have not agreed on the priority of climate-related disclosures. Also, additional disclosure requirements or increased scrutiny of companies' climate-related information—which, if necessary, SEC and Congress can consider—could have mission and resource implications for SEC's Division of Corporation Finance.