To amend the Securities Exchange Act of 1934 to require issuers to disclose certain activities relating to climate change, and for other purposes.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 24, 2018

Ms. WARREN (for herself, Mr. WHITEHOUSE, Mr. SCHATZ, Mr. MARKEY, Mr. BOOKER, Mr. MERKLEY, Ms. HARRIS, and Mrs. GILLIBRAND) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To amend the Securities Exchange Act of 1934 to require issuers to disclose certain activities relating to climate change, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Climate Risk Disclosure Act of 2018”.

SEC. 2. DEFINITIONS.

In this Act—

(1) the term “appropriate climate principals” means—
(A) the Administrator of the Environmental Protection Agency;
(B) the Secretary of Energy;
(C) the Administrator of the National Oceanic and Atmospheric Administration;
(D) the Director of the Office of Management and Budget; and
(E) the head of any other Federal agency determined appropriate by the Commission;
(2) the term “appropriate congressional committees” means—
(A) the Committee on Banking, Housing, and Urban Affairs of the Senate; and
(B) the Committee on Financial Services of the House of Representatives;
(3) the term “climate change” means a change of climate that is—
(A) attributed directly or indirectly to human activity that alters the composition of the global atmosphere; and
(B) in addition to natural climate variability observed over comparable time periods;
(4) the term “Commission” means the Securities and Exchange Commission; and
(5) the term “covered issuer” has the meaning given the term in subsection (s)(1) of section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m), as added by section 4(a).

SEC. 3. SENSE OF CONGRESS.

It is the sense of Congress that—

(1) continued inaction in addressing climate change poses a significant threat to the growth and stability of the economy of the United States;

(2) many sectors of the economy of the United States are exposed to multiple channels of climate-related risk, which may include exposure to—

(A) the physical impacts of climate change, including the rise of the average global temperature, sea-level rise, desertification, ocean acidification, flooding, drought, and wildfires;

(B) the economic disruptions and security threats that result from the physical impacts described in subparagraph (A); and

(C) the transition impacts that result as the global economy transitions to a clean energy, low-emissions economy, including financial impacts as fossil fuel assets become stranded as the global community acts to prevent the worst impacts of climate change by keeping the aver-
age rise in global temperature well below 2 degrees Celsius above pre-industrial levels;

(3) assessing the potential impact of climate-related risks on national and international financial systems is an urgent concern;

(4) companies have a duty to disclose financial risks that climate change presents;

(5) the Commission has a duty to promote a risk-informed securities market that is worthy of the trust of the public as families invest for their futures;

(6) including standardized climate change risk disclosure that is useful for decision makers in annual reports to the Commission will increase transparency with respect to risk accumulation and exposure in financial markets;

(7) requiring companies to disclose climate-related risk exposure and risk management strategies will encourage a smooth transition to a clean energy, low-emissions economy and guide capital allocation to mitigate, and adapt to, the effects of climate change; and

(8) a critical component in fighting climate change is a transparent accounting of the risks that
climate change presents and the implications of continued inaction with respect to climate change.

SEC. 4. DISCLOSURE.

(a) IN GENERAL.—Section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m) is amended by adding at the end the following:

"(s) DISCLOSURES RELATING TO CLIMATE CHANGE.—"

"(1) DEFINITIONS.—In this subsection—

"(A) the term ‘2 degrees or lower scenario’ means a widely recognized, publicly available analysis scenario in which human interventions to combat global climate change are likely to prevent the global average temperature from reaching 2 degrees Celsius above pre-industrial levels;

"(B) the terms ‘appropriate climate principals’ and ‘climate change’ have the meanings given those terms in section 2 of the Climate Risk Disclosure Act of 2018;

"(C) the term ‘baseline scenario’ means a widely recognized analysis scenario in which levels of greenhouse gas emissions, as of the date on which the analysis is performed, continue to grow, resulting in—"
“(i) an increase in the global average temperature of 2 degrees Celsius or more above pre-industrial levels; and

“(ii) the realization of physical risks relating to global climate change;

“(D) the term ‘carbon dioxide equivalent’ means the quantity of a greenhouse gas that has a global warming potential equivalent to 1 metric ton of carbon dioxide, as determined under table A–1 of subpart A of part 98 of title 40, Code of Federal Regulations, as in effect on the date of enactment of this subsection;

“(E) the term ‘commercial development of fossil fuels’ includes—

“(i) exploration, extraction, processing, exporting, transporting, and any other significant action with respect to oil, natural gas, or coal; and

“(ii) acquiring a license for any activity described in clause (i);

“(F) the term ‘covered issuer’ means an issuer that is required to file an annual report under subsection (a) or section 15(d);
“(G) the term ‘direct and indirect greenhouse gas emissions’ includes, with respect to a covered issuer—

“(i) all direct greenhouse gas emissions released by the covered issuer;

“(ii) all indirect greenhouse gas emissions with respect to electricity, heat, or steam purchased by the covered issuer;

“(iii) significant indirect emissions, other than the emissions described in clause (ii), that occur in the value chain of the covered issuer; and

“(iv) all indirect greenhouse gas emissions that are attributable to assets owned or managed, including assets that are partially owned or managed, by the covered issuer;

“(H) the term ‘fossil fuel reserves’ means all producing assets, proved reserves, unproved resources, and any other ownership stake in sources of fossil fuels;

“(I) the term ‘greenhouse gas’—

“(i) means carbon dioxide, hydrofluorocarbons, methane, nitrous oxide, perfluorocarbons, and sulfur hexafluoride; and
“(ii) includes any other anthropogenically emitted gas or particulate that the Administrator of the Environmental Protection Agency determines, after notice and comment, to contribute to global warming;

“(J) the term ‘greenhouse gas emissions’ means the emissions of greenhouse gas, expressed in terms of metric tons of carbon dioxide equivalent;

“(K) the term ‘physical risks’ means financial risks to long-lived fixed assets, locations, operations, or value chains that result from exposure to physical climate-related effects, including—

“(i) increased average global temperatures;

“(ii) increased severity and frequency of extreme weather events;

“(iii) increased flooding;

“(iv) sea level rise;

“(v) ocean acidification;

“(vi) increased frequency of wildfires;

“(vii) decreased arability of farmland;

and
“(viii) decreased availability of fresh water;

“(L) the term ‘social cost of carbon’ means the monetized present value, discounted at a 3 percent or lower discount rate, in dollars, per metric ton of carbon dioxide (or carbon dioxide equivalent), of the net global costs over 300 years caused by the emission of carbon dioxide (or carbon dioxide equivalent, as applicable) that result from—

“(i) changes in net agricultural productivity;

“(ii) decreases in capital and labor productivity;

“(iii) effects on human health;

“(iv) property damage from increased sea level rise, flooding, wildfires, and frequency and severity of extreme weather events;

“(v) the value of ecosystem services; and

“(vi) any other type of economic, social, political, or natural disruption;

“(M) the term ‘transition risks’ means financial risks that are attributable to climate
change mitigation and adaptation, including ef-
forts to reduce greenhouse gas emissions and
strengthen resilience to the impacts of climate
change, including—

“(i) costs relating to—

“(I) international treaties and
agreements;

“(II) Federal, State, and local
policy;

“(III) new technologies;

“(IV) changing markets;

“(V) reputational impacts rel-
relevant to changing consumer behavior;
and

“(VI) litigation; and

“(ii) assets that may lose value or be-
come stranded due to any of the costs de-
scribed in subclauses (I) through (VI) of
clause (i); and

“(N) the term ‘value chain’—

“(i) means the total lifecycle of a
product or service, both before and after
production of the product or service, as ap-
pllicable; and
“(ii) may include the sourcing of materials, production, and disposal with respect to the product or service described in clause (i).

“(2) FINDINGS.—Congress finds that—

“(A) long-term financial and economic risks and opportunities relating to climate change, and the national and global reduction of greenhouse gas emissions, constitute information that issuers—

“(i) may reasonably expect to affect shareholder decisionmaking; and

“(ii) should regularly identify, evaluate, and disclose; and

“(B) the disclosure of information described in subparagraph (A) should—

“(i) identify, and evaluate the potential financial impact of, physical risks and transition risks posed by climate change;

“(ii) allow for intra- and cross-industry comparison, to the extent practicable, of climate-related risk exposure through the inclusion of standardized industry-specific and sector-specific disclosure metrics, as identified by the Commission, in con-
sultation with the appropriate climate principals;

“(iii) allow for tracking of performance over time with respect to mitigating climate risk exposure; and

“(iv) incorporate a price on greenhouse gas emissions in financial analyses that reflects, at minimum, the social cost of carbon that is attributable to issuers.

“(3) DISCLOSURE.—Each covered issuer, in any annual report filed by the covered issuer under subsection (a) or section 15(d), shall, in accordance with the requirements established under paragraphs (4) and (5), include in each such report information regarding—

“(A) the identification of, the evaluation of potential financial impacts of, and any risk-management strategies relating to—

“(i) physical risks posed to the covered issuer by climate change; and

“(ii) transition risks posed to the covered issuer by climate change; and

“(B) a description of any established corporate governance processes and structures to
identify, assess, and manage climate-related risks.

“(4) REQUIREMENTS.—

“(A) IN GENERAL.—The Commission, in consultation with the appropriate climate principals, and consistent with subparagraph (B), shall issue final rules with respect to the information that a covered issuer is required to disclose under paragraph (3).

“(B) CONTENTS.—In issuing the final rules required under subparagraph (A), the Commission shall—

“(i) establish, in consultation with the appropriate climate principals, climate-related risk disclosure metrics and guidance, which shall—

“(I) be, to the extent practicable, specialized for industries within specific sectors of the economy, which shall include—

“(aa) the sectors of finance, insurance, transportation, electric power, and non-renewable energy; and
“(bb) any other sector determined appropriate by the Commission, in consultation with the appropriate climate principals;

“(II) include reporting standards for estimating and disclosing direct and indirect greenhouse gas emissions by a covered issuer, and any affiliates of the covered issuer, which shall—

“(aa) separate, to the extent practicable, total emissions of each specified greenhouse gas by the covered issuer; and

“(bb) include greenhouse gas emissions by the covered issuer during the period covered by the disclosure;

“(III) include reporting standards and metrics for disclosing, with respect to a covered issuer—

“(aa) the total amount of fossil fuel-related assets owned or managed by the covered issuer; and
“(bb) the percentage of fossil fuel-related assets as a percentage of total assets owned or managed by the covered issuer;

“(IV) establish a minimum social cost of carbon, which—

“(aa) shall be considered a minimum price with respect to costs associated with carbon emissions; and

“(bb) a covered issuer shall use in preparing climate-related disclosure statements;

“(V) not preclude a covered issuer from using and disclosing, as compared with the price established under subclause (IV)(aa), a higher price of greenhouse gas emissions;

“(VI) specify requirements for, and the disclosure of, input parameters, assumptions, and analytical choices to be used in climate scenario analyses required under clause (ii)(I), including—
“(aa) present value discount rates;

“(bb) time frames to consider, which shall be not shorter than 30 years; and

“(cc) minimum pricing of greenhouse gas emissions, as established under subclause (IV)(aa) and subject to subclause (V); and

“(VII) include, after consultation with the Secretary of Energy, the Secretary of the Interior, and the Secretary of Transportation, documentation standards and guidance with respect to the information required under clause (ii)(III);

“(ii) require that a covered issuer, with respect to the disclosure required under paragraph (3)—

“(I) incorporate into the disclosure—

“(aa) quantitative analysis to support any qualitative statement made by the covered issuer;
“(bb) the metrics and guidance established under clause (i);

“(cc) industry-specific metrics that comply with the requirements under clause (i)(I);

“(dd) a discussion of the short-, medium-, and long-term resilience of any risk management strategy, and the evolution of applicable risk metrics, of the covered issuer under each scenario described in subclause (II); and

“(ee) the total social cost of carbon emissions that are attributable to the direct and indirect greenhouse gas emissions of the covered issuer;

“(II) consider, when preparing any qualitative or quantitative risk analysis statement contained in the disclosure—

“(aa) a baseline scenario that includes physical impacts of climate change;
“(bb) a 2 degrees or lower scenario; and

“(cc) any additional climate analysis scenario considered appropriate by the Commission, in consultation with the appropriate climate principals;

“(III) if the covered issuer engages in the commercial development of fossil fuels, include in the disclosure—

“(aa) an estimate of the amount of direct and indirect greenhouse gas emissions of the covered issuer that are attributable to—

“(AA) combustion;

“(BB) flared hydrocarbons;

“(CC) process emissions;

“(DD) directly vented emissions;

“(EE) fugitive emissions or leaks; and
“(FF) land use changes;

“(bb) a description of—

“(AA) the sensitivity of fossil fuel reserve levels to future price projection scenarios that incorporate the social cost of carbon into hydrocarbon pricing;

“(BB) the percentage of the reserves of the covered issuer that will be developed under a 2 degrees or lower scenario, as well as a forecast for the development prospects of each reserve under a 2 degrees or lower scenario;

“(CC) the potential amount of direct and indirect greenhouse gas emissions that are embedded in proved and probable hydrocarbon reserves, with each such calculation presented
as a total and in subdivided categories by the type of reserve;

“(DD) the methodology of the covered issuer for detecting and mitigating fugitive methane emissions, which shall include the frequency with which applicable assets of the covered issuer are observed for methane leaks, the processes and technology that the covered issuer uses to detect methane leaks, the percentage of assets of the covered issuer that the covered issuer inspects under that methodology, and quantitative and time-bound reduction goals of the issuer with respect to methane leaks;

“(EE) the amount of water that the covered issuer withdraws from freshwater
sources for use in operations
of the covered issuer; and

“(FF) the percentage
of the water described in
subitem (EE) that comes
from regions of water stress
or that face wastewater
management challenges; and

“(ce) any other information
that the Commission, in consulta-
tion with the appropriate climate
principals and the Secretary of
Energy, the Secretary of the In-
terior, and the Secretary of
Transportation, determines is—

“(AA) necessary;

“(BB) appropriate to
safeguard the public inter-
est; or

“(CC) directed at en-
suring that investors are in-
formed in accordance with
the findings described in
paragraph (2)(B); and
“(iii) with respect to the disclosure required under paragraph (3), require that the covered issuer include in the disclosure any other information, or use any climate-related or greenhouse gas emissions metric, that the Commission, in consultation with the appropriate climate principals, determines is—

“(I) necessary;

“(II) appropriate to safeguard the public interest; or

“(III) directed at ensuring that investors are informed in accordance with the findings described in paragraph (2)(B).

“(5) FORMATTING.—

“(A) IN GENERAL.—Any information included pursuant to the requirements of this subsection by a covered issuer in an annual report submitted under subsection (a) or section 15(d) shall be submitted in an interactive data format.

“(B) ESTABLISHMENT BY COMMISSION.—The Commission shall develop standards for the interactive data format described in subpara-
graph (A), which shall include electronic tags for information that the Commission determines is—

“(i) necessary;

“(ii) appropriate to safeguard the public interest; or

“(iii) directed at ensuring that investors are informed in accordance with the findings described in paragraph (2)(B).

“(6) PUBLIC AVAILABILITY.—The Commission shall, to the maximum extent practicable, make a compilation of the information submitted by covered issuers under this subsection publicly available on the website of the Commission.

“(7) RULE OF CONSTRUCTION.—Nothing in paragraph (3) or (4) may be construed as precluding a covered issuer from including, in an annual report submitted under subsection (a) or section 15(d), any information not explicitly referenced in those paragraphs.”.

(b) REGULATIONS.—

(1) IN GENERAL.—Not later than 1 year after the date of enactment of this Act, the Commission, in consultation with the appropriate climate principals, shall issue final rules to establish appropriate
documentation standards, metrics for calculations required, and guidance with respect to the disclosure requirements under subsection (s) of section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m), as added by subsection (a) of this section.

(2) **PERIODIC UPDATES.**—The Commission shall periodically update the rules issued under paragraph (1) to ensure that those rules further the purposes described in subsection (s)(2)(B) of section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m), as added by subsection (a) of this section.

**SEC. 5. REPORTS.**

(a) **SECURITIES AND EXCHANGE COMMISSION.**—The Commission shall—

(1) conduct an annual assessment regarding the compliance of covered issuers with the requirements of subsection (s) of section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m), as added by section 4(a);

(2) submit to the appropriate congressional committees a report that contains the results of each assessment conducted under paragraph (1); and

(3) make each report submitted under paragraph (2) accessible to the public.
(b) **Government Accountability Office.**—The Comptroller General of the United States shall periodically evaluate, and report to the appropriate congressional committees on, the effectiveness of the Commission in carrying out and enforcing subsection (s) of section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m), as added by section 4(a).

**SEC. 6. SEVERABILITY.**

If any provision of this Act, an amendment made by this Act, or the application of this Act (or an amendment made by this Act) to any person or circumstance is held to be invalid, that holding shall have no effect with respect to—

(1) the remainder of this Act; and

(2) the application of the provision or amendment, as applicable, to any other person or circumstance.

**SEC. 7. AUTHORIZATION OF APPROPRIATIONS.**

There are authorized to be appropriated to the Commission such sums as may be necessary to carry out this Act.