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 HOUSE OF REPRESENTATIVES

JULY 5, 2019

Mr. CASTEN of Illinois (for himself and Mr. CARTWRIGHT) introduced the following bill; which was referred to the Committee on Financial Services, and in addition to the Committee on Energy and Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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.

1 Be it enacted by the Senate and House of Representa-
2 tives of the United States of America in Congress assembled,
3
4 SECTION 1. SHORT TITLE.
5 This Act may be cited as the “Climate Risk Disclo-
6 sure Act of 2019”.
7
8 SEC. 2. DEFINITIONS.
9 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;

(5) the term “covered issuer” has the meaning given the term in section 13(s) of the Securities Exchange Act of 1934, as added by section 5;

(6) the term “1.5 degree 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 1.5 degrees Celsius above pre-industrial levels;

(7) the terms “appropriate climate principals” and “climate change” have the meanings given those terms in section 13(s) of the Securities Exchange Act of 1934;

(8) 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—

(A) an increase in the global average temperature of 1.5 degrees Celsius or more above pre-industrial levels; and

(B) the realization of physical risks relating to global climate change;
the term “carbon dioxide equivalent” means the number of metric tons of carbon dioxide emissions with the same global warming potential as one metric ton of another greenhouse gas, 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;

(10) the term “commercial development of fossil fuels” includes—

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

(B) acquiring a license for any activity described in subparagraph (A);

(11) the term “direct and indirect greenhouse gas emissions” includes, with respect to a covered issuer—

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

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

(C) significant indirect emissions, other than the emissions described in subparagraph
(B), that occur in the value chain of the covered issuer; and

(D) 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;

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

(13) the term “greenhouse gas”—

(A) means carbon dioxide, hydrofluorocarbons, methane, nitrous oxide, perfluorocarbons, sulfur hexafluoride, nitrogen trifluoride, and chlorofluorocarbons; and

(B) includes any other anthropogenically-emitted gas or particulate that the Administrator of the Environmental Protection Agency determines, after notice and comment, to contribute to climate change;

(14) the term “greenhouse gas emissions” means the emissions of greenhouse gas, expressed in terms of metric tons of carbon dioxide equivalent;
(15) the term “physical risks” has meaning given the term in section 13(s) of the Securities Exchange Act of 1934;

(16) 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—

(A) changes in net agricultural productivity;

(B) decreases in capital and labor productivity;

(C) effects on human health;

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

(E) the value of ecosystem services; and

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

(17) the term “transition risks” has meaning given the term in section 13(s) of the Securities Exchange Act of 1934;

(18) the term “value chain”—
(A) means the total lifecycle of a product or service, both before and after production of the product or service, as applicable; and

(B) may include the sourcing of materials, production, and disposal with respect to the product or service described in subparagraph (A); and

(19) the term “well below 1.5 degrees 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 1.5 degrees Celsius above pre-industrial levels.

SEC. 3. SENSE OF CONGRESS.

It is the sense of Congress that—

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

(2) many sectors of the economy of the United States and many American businesses 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 tem-
perature, accelerating sea-level rise, desertification, ocean acidification, intensification of storms, increase in heavy precipitation, more frequent and intense temperature extremes, more severe droughts, and longer wildfire seasons;

(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 and renewable energy, low-emissions economy, including financial impacts as fossil fuel assets risk becoming stranded and it becomes uneconomic for companies to develop fossil fuel assets as policymakers act to limit the worst impacts of climate change by keeping the average rise in global temperature to 1.5 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 to their investors, lenders, and insurers;
(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) investors, lenders, and insurers are increasingly demanding climate risk information that is consistent, comparable, reliable, and clear;

(7) including standardized, material climate change risk and opportunity 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;

(8) requiring companies to disclose climate-related risk exposure and risk management strategies will encourage a smoother transition to a clean and renewable energy, low-emissions economy and guide capital allocation to mitigate, and adapt to, the effects of climate change and limit damages associated with climate-related events and disasters; and

(9) 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. FINDINGS.

Congress finds that—
(1) short-, medium-, and long-term financial
and economic risks and opportunities relating to cli-
mate change, and the national and global reduction
of greenhouse gas emissions, constitute information
that issuers—

(A) may reasonably expect to affect share-
holder decision making; and

(B) should regularly identify, evaluate, and
disclose; and

(2) the disclosure of information described in
paragraph (1) should—

(A) identify, and evaluate—

(i) material physical and transition
risks posed by climate change; and

(ii) the potential financial impact of
such risks;

(B) detail any implications such risks have
on corporate strategy;

(C) detail any board-level oversight of ma-
terial climate-related risks and opportunities;

(D) allow for intra- and cross-industry
comparison, to the extent practicable, of cli-
mate-related risk exposure through the inclu-
sion of standardized industry-specific and sec-
tor-specific disclosure metrics, as identified by
the Commission, in consultation with the appropriate climate principals;

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

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

SEC. 5. DISCLOSURES RELATING TO CLIMATE CHANGE.

(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 ‘appropriate climate principals’ means—

“(i) the Administrator of the Environmental Protection Agency;

“(ii) the Secretary of Energy;

“(iii) the Administrator of the National Oceanic and Atmospheric Administration;
“(iv) the Director of the Office of Management and Budget; and

“(v) the head of any other Federal agency determined appropriate by the Commission;

“(B) the term ‘climate change’ means a change of climate that is—

“(i) attributed directly or indirectly to human activity that alters the composition of the global atmosphere; and

“(ii) in addition to natural climate variability observed over comparable time periods;

“(C) the term ‘covered issuer’ means an issuer that is required to file an annual report under subsection (a) or section 15(d);

“(D) 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 and increased frequency of temperature extremes;
“(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;
“(viii) decreased availability of fresh water; and
“(ix) any other financial risks to long-lived fixed assets, locations, operations, or value chains determined appropriate by the Commission, in consultation with appropriate climate principals;
“(E) the term ‘transition risks’ means financial risks that are attributable to climate change mitigation and adaptation, including efforts 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 relevant to changing consumer behavior; and

“(VI) litigation; and

“(ii) assets that may lose value or become stranded due to any of the costs described in subclauses (I) through (VI) of clause (i);

“(2) DISCLOSURE.—Each covered issuer, in any annual report filed by the covered issuer under subsection (a) or section 15(d), shall, in accordance with any rules issued by the Commission pursuant to the Climate Risk Disclosure Act of 2019, 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;

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

“(C) a description of specific actions that the covered issuer is taking to mitigate identified risks.

“(3) RULE OF CONSTRUCTION.—Nothing in paragraph (2) 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.”.

SEC. 6. RULEMAKING.

(a) CLIMATE RISK DISCLOSURE RULES.—The Commission, in consultation with the appropriate climate principals, shall not later than 2 years after the date of the enactment of this Act, issue rules with respect to the information that a covered issuer is required to disclose pursuant to section 13(s) of the Securities Exchange Act of 1934 and such rules shall—

(1) establish, in consultation with the appropriate climate principals, climate-related risk disclosure guidance, which shall—

(A) be, to the extent practicable, specialized for industries within specific sectors of the economy, which shall include—
(i) the sectors of finance, insurance, transportation, electric power, mining, and non-renewable energy; and

(ii) any other sector determined appropriate by the Commission, in consultation with the appropriate climate principals;

(B) 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—

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

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

(C) include reporting standards for disclosing, with respect to a covered issuer—

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

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

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

(ii) a covered issuer shall use in preparing climate-related disclosure statements; and

(iii) the Commission shall make publicly available all assumptions and methods used in the calculations;

(E) not preclude a covered issuer from using and disclosing, as compared with the price established under subparagraph (D), a higher price of greenhouse gas emissions;

(F) specify requirements for, and the disclosure of, input parameters, assumptions, and analytical choices to be used in climate scenario analyses required under paragraph (2)(A), including—

(i) present value discount rates;
(ii) time frames to consider, including
5-, 10-, and 20-year time frames; and

(iii) minimum pricing of greenhouse
gas emissions, as established under sub-
paragraph (D) and subject to subpara-
graph (E); and

(G) include, after consultation with the
Administrator of the Environmental Protection
Agency, the Secretary of Energy, the Secretary
of the Interior, the Secretary of Agriculture, the
Secretary of Transportation, the Chair of the
Council on Environmental Quality, and the Di-
rector of the Office of Science and Technology
Policy documentation standards and guidance
with respect to the information required under
paragraph (2)(C);

(2) require that a covered issuer, with respect
to a disclosure required under section 3(s) of the Se-
curities Exchange Act of 1934—

(A) incorporate into such disclosure—

(i) quantitative analysis to support
any qualitative statement made by the cov-
ered issuer;

(ii) the guidance established under
paragraph (1);
(iii) industry-specific metrics that comply with the requirements under paragraph (1)(A);

(iv) specific risk management actions that the covered issuer is taking to address identified risks;

(v) 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 paragraph (1)(B); and

(vi) the total cost of carbon attributable to the direct and indirect greenhouse gas emissions of the covered issuer, using, at minimum, the social cost of carbon;

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

(i) a baseline scenario that includes physical impacts of climate change;

(ii) a well below 1.5 degrees scenario; and
(iii) any additional climate analysis scenario considered appropriate by the Commission, in consultation with the appropriate climate principals;

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

(i) an estimate of the total and a disaggregated amount of direct and indirect greenhouse gas emissions of the covered issuer that are attributable to—

(I) combustion;

(II) flared hydrocarbons;

(III) process emissions;

(IV) directly vented emissions;

(V) fugitive emissions or leaks;

and

(VI) land use changes;

(ii) a description of—

(I) the sensitivity of fossil fuel reserve levels to future price projection scenarios that incorporate the social cost of carbon into hydrocarbon pricing;
(II) the percentage of the reserves of the covered issuer that will be developed under the scenarios established in subparagraph (B), as well as a forecast for the development prospects of each reserve under the scenarios established in subparagraph (B);

(III) 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;

(IV) 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;

(V) the amount of water that the
covered issuer withdraws from fresh-
water sources for use and consump-
tion in operations of the covered
issuer; and

(VI) the percentage of the water
described in subclause (V) that comes
from regions of water stress or that
face wastewater management chal-
lenges; and

(iii) any other information that the
Commission, in consultation with the ap-
propriate climate principals and the Ad-
ministrator of the Environmental Protec-
tion Agency, the Secretary of Energy, the
Secretary of the Interior, the Secretary of
Agriculture 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 section 4;

(3) with respect to a disclosure required under section 13(s) of the Securities Exchange Act of 1934, require that a covered issuer include in such 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—

(A) necessary;

(B) appropriate to safeguard the public interest; or

(C) directed at ensuring that investors are informed in accordance with the findings described in section 4; and

(4) with respect to a disclosure required under section 13(s) of the Securities Exchange Act of 1934, establish how and where the required disclosures shall be addressed in the covered issuer’s annual financial filing.

(b) FORMATTING.—The Commission shall require issuers to disclose information in an interactive data format and shall develop standards for such format, which
shall include electronic tags for information that the Commission determines is—

(1) necessary;

(2) appropriate to safeguard the public interest;

or

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

(e) Periodic Update of Rules.—The Commission shall periodically update the rules issued under this section to ensure that such rules further the purposes described in section 4(2).

SEC. 7. COMPILATION OF INFORMATION DISCLOSED.

The Commission shall, to the maximum extent practicable make a compilation of the information disclosed by issuers pursuant to section 13(s) of the Securities Exchange Act of 1934 publicly available on the website of the Commission; and update such compilation at least once each year.

SEC. 8. BACKSTOP.

If, 2 years after the date of the enactment of this Act, the Commission has not issued rules pursuant to section 6, and until such rules are issued, a covered issuer shall be deemed in compliance with section 13(s) of the Securities Exchange Act of 1934 if disclosures set forth
in the annual report of such issuer satisfy the recom-
mendations of the Task Force on Climate-Related Fi-
nancial Disclosures of the Financial Stability Board as re-
ported in June 2017, or any successor report, and as sup-
plemented or adjusted by such rules, guidance, or other com-
ments from the Commission.

SEC. 9. REPORTS.

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

(1) conduct an annual assessment regarding the compliance of covered issuers with the requirements of section 13(s) of the Securities Exchange Act of 1934, as added by section 5;

(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 com-
mittees on, the effectiveness of the Commission in carrying out and enforcing section 13(s) of the Securities Exchange Act of 1934, as added by section 5.
SEC. 10. 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. 11. AUTHORIZATION OF APPROPRIATIONS.

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