Statement of Senator Jack Reed
Hearing on "Climate Disclosure: Measuring Financial Risks and Opportunities"

This afternoon we are holding a hearing on "Climate Disclosure: Measuring Financial Risks and Opportunities". The purpose of today's hearing is to look at the types of economic risks and opportunities posed by climate change and the connection between climate change and the health of financial markets; examine how climate risks and opportunities are currently being discussed in corporate financial disclosure statements, and determine whether or not current disclosure requirements are adequate, and any ideas for possible improvements; and hear from investors and other stakeholders on their request for consistent climate risk disclosure in order to better manage financial risks.

Global warming presents a real, and serious, risk to our environment, our communities, and our financial markets. While no one can predict the consequences of climate change with certainty, we do know enough to understand there are risks. These risks include crop damage from more severe droughts; damage to coastal communities from sea level rise and more intense storms; and blackouts that may result from heat waves or plant shutdown from too little cooling water. I believe it is in our self-interest to manage the risk and find ways to mitigate global warming, while attempting to adapt to the upcoming changes and identifying business opportunities to reduce carbon emissions.

There is a growing awareness among analysts, investors, businesses, government officials and other stakeholders that climate change can create new opportunities and risks in the financial sector. Major environmental risks and liabilities can significantly impact companies' future earnings and, if undisclosed, could impair investors' ability to make sound investment decisions. At the same time, a corporation or investor can profit from environmental innovations such as the development of new energy efficient or renewable energy technology.

The costs associated with more extreme-weather events, regulations to curb greenhouse gas emissions at the global, regional, state, and local level, growing global demand for low-carbon technologies, and the increasing geographic spread of infectious diseases are just a few of the ways that climate change is likely to ripple through the U.S. and global economy. With these risks, however, comes opportunity. Companies in many sectors can increase their profitability by implementing energy efficiency strategies and developing emission-reducing technologies and products whose value is enhanced by global efforts to reduce greenhouse gas emissions.

In September 2007, the Carbon Disclosure Project released its 5th survey. The CDP represents 315 institutional investors with assets of $41 trillion, or more than one third of total global invested assets. Fifty-six percent of S&P500 companies answered the survey. Of those responding, 81 percent of the companies reported that they regard climate change as posing a commercial risk and 69 percent of those firms also consider it an important business opportunity. While a majority of the S&P500 companies participated in the survey, the CDP also conducted a review of Form 10-K securities filings and found that climate change disclosure was rare.

There is an old adage in business: what gets measured gets managed. Investors recognize this and they are calling for greater climate disclosure, both voluntary and mandatory. In September, a broad coalition of investors, state officials with regulatory and fiscal management responsibilities, and environmental groups filed a petition asking the SEC to issue an interpretive release to clarify that publicly-traded companies must assess and fully disclose their financial risks and opportunities related to climate change under existing law. The 22 petitioners include leading institutional investors in the U.S. and Europe managing more than $1.5 trillion in assets. In addition, the number of shareholder resolutions on climate change is increasing from 6 in 2001 to almost 50 in 2007. These resolutions now account for over ten percent of all shareholder resolution filed.

Public discussion about global warming has largely focused on the scientific debate and the environmental consequences. As the science has become stronger and the need for action more compelling, global warming is getting increasing attention in corporate boardrooms and from investors, and the market is responding. However, markets work best when they have accurate information. Informational transparency is therefore vitally important if financial markets are to price climate risks and opportunities efficiently.

In addition to today’s hearing on climate disclosure, I think it is also important for the Subcommittee to consider the emerging financial market in emissions and carbon trading. The global effort to reduce the emissions of greenhouse gases has led to the creation of large and rapidly growing carbon markets around the world. According to the World Bank, the global carbon market grew from approximately $10 billion in 2005 to over $30 billion in 2006. Some credible private estimates put the global market at over $50 billion in 2007. While difficult to predict with precision, the enactment of a mandatory cap and trade bill in the U.S. would create the largest carbon market globally. In the EU Emissions Trading Scheme carbon trading occurs both over-the-counter and on exchanges with significant participation by some of the largest regulated financial institutions. It is expected that a U.S. cap and trade program would develop similarly.

But today’s hearing today is an opportunity to learn from our witnesses about what economics is telling us about climate change, the connection between climate change and the health of financial markets, and the type of information investors need to make sound decisions in the marketplace. It is also an opportunity to examine voluntary and mandatory mechanisms for climate risk disclosure by public corporations, whether current disclosure is adequate, and the need for the SEC to offer guidance for climate risk disclosure.