Banking Committee Hearing on Climate Disclosure

October 31, 2007

I want to thank Chairman Reed and Ranking Member Allard for putting together this important hearing.

If there is anything I hope we can take away from today's discussion, it is that climate change does not exist in a bubble. The fact that we are having a hearing on this issue in the Banking Committee speaks to its very nature. Asking the questions of what we can do to affect global climate change is not limited to those who advocate for the environment or to improve our energy usage. It is not limited to one region of the world, or to certain cities. It is not limited to just one sector. The responsibility falls on all of us. And we must all be asking the questions of what we can do to affect our climate – especially those of us who think we have little or no role.

Today we have a chance to ask those questions, to look at what those in the financial sector are doing, to ask those who perhaps do not think about emissions on a daily basis to do more.

It is imperative that our nation make a transition to a cleaner, safer, greener, and wealthier country. We must take action to stabilize greenhouse gas emissions and ward off the potentially catastrophic effects of global warming. This will not happen by itself, however.

I am pleased that Senators Lieberman, Warner, and Boxer have shown such leadership in the issue of climate change by introducing and moving a bill forward. This bill would take a number of important steps, including requiring the reporting of climate risks. However, I do think we should look closely at how the bill deals with corporate reporting of climate risks and greenhouse gas emissions, and believe there could be room for improvement.

First I think it is important to distinguish between two very different kinds of reporting.

On the one hand, we want investors to know whether companies are faced with financial risks because of the potential effects of climate change. These risks range from increased insurance claims to physical risks such as stronger storms or flooding. In general these risks are difficult to quantify or even predict, but are nonetheless terribly important for those making investment decisions.

The second kind of risks that should be reported are the risks associated with the necessary changes we will all have to make in order to reduce global emissions. These risks are also difficult predict and also difficult to put into dollar terms, but I would submit that these risks can be quantified.

What future regulations will entail or what costs they might impose cannot be foretold, but if companies simply reported their emissions to investors then investors would be empowered to make their own calculations on potential exposure or the likelihood of different sets of policies being enacted. Without such data investors will be limited to what companies choose to disclose and left to trust the company's own assessments of financial risk.

Unfortunately I do not read the Lieberman Warner bill to require such disclosures. Instead it gives the SEC broad discretion to formulate risk reporting associated with climate change.

My staff is currently working on some language that I feel must be part of any corporate reporting on climate change:

First, the EPA is the organization with the expertise and experience in administering greenhouse gas emissions reporting programs. The SEC must work alongside the EPA to design such a program here.

Second, emissions reporting should be done at the corporate level and not just at the facility level. And this reporting needs to include indirect emissions such as electricity use and not just direct emissions. Climate leaders such as Citigroup, Target, and Marriott do not have large industrial facilities or power plants that would be covered by the Lieberman Warner bill. Yet all three companies are voluntarily reporting their emissions to the EPA. They realize that they can significantly help reduce our nation's carbon footprint and they want to be held accountable for taking this responsibility seriously. In turn, investors such as those represented by CERES here today want to know what organizations are sensibly planning for the future and who is stuck in the mindset of last century.

Third, emissions must also be reported by country. Different nations operate under different regulatory regimes and therefore multinational corporations are exposed to different risks.

I'm afraid I cannot stay for the whole hearing today, but I would like to hear from the witnesses on this issue, and I will be submitting questions for the record.

Again, I want to thank Chairman Reed and Ranking Member Allard for their work in putting this hearing together. I look forward to working with them, this Committee and the EPW committee in putting together climate change legislation that will help us transform our economy and protect investors at the same time.