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Global Warming Disclosure: Necessary or Needless?

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U.S. securities regulators waded into the contentious issue of global warming this week, announcing plans to issue guidelines for companies to disclose the affects of climate change on their bottom lines.

The disclosures, the Securities and Exchange Commission explained, will help investors sort out the "impact that business or legal developments related to climate change" may have on a company.

The agency has not yet provided the guidance, but a release issued this week outlines several reporting areas, including legislative or regulatory changes, alterations in international accords and treaties, indirect consequences, opportunities and risks due to changing trends and physical impacts of climate change.

In issuing the guidance, SEC chairman Mary Schapiro insisted the agency is taking no sides in the raging debate over global warming.

"We are not opining on whether the world's climate is changing, at what pace it might be changing, or due to what causes," she said in a release announcing the intent to issue the guidelines. "Nothing that the Commission does today should be construed as weighing in on those topics. Today's guidance will help to ensure that our disclosure rules are consistently applied."

The SEC's decision to issue the guidance is a result of a push from more than a dozen large investors for more information about climate change affects. The investors include some of the largest public pension funds in the nation as well as the treasurers and attorneys general of several states.

"These are main stream investors who have educated themselves about climate change for a number of years and concluded it poses financial risk that they want to understand better," said Jim Coburn, senior manager at Ceres, a coalition of investors an environmental groups that work with companies to address sustainability challenges such as climate change.

Whichever side of the climate debate you take, Coburn said, there are initiatives in place already – renewable portfolio standards, regional greenhouse gas initiatives - that will have a huge affect on corporate performance. Investors should have that information before agreeing to sink money into a company.

"We need the full disclosure of information about climate risk and hope to connect with innovators who are finding ways to reduce environmental risk and generate solid earnings. We believe the market will reward investors who see the climate change challenge as opportunity, and that investors and companies that are slow to act will find themselves years behind the curve," said Clark McKinley, information officer for the California Public Employees Retirement System.

But as with the debate on climate change itself, there are plenty of skeptics.

Reporting is unnecessary and premature, some say, and provides little or no benefit to investors in the majority of cases. What's more, they wonder, how is a company supposed to report on the physical impacts of global warming, when the scientists who study the problem don't have a firm grip on what to expect.

"Even if you accept the predictions of climate change, there is no way to know what the secondary impacts are," said Mark Calabria, director of financial regulation studies at the libertarian Cato Institute. "How can a company predict the impact of something like a sea level change 10 or 15 years down the line? This strikes me as politically driven and I see this as nothing more than fodder for litigation."

Disclosures are made to ensure that investors have all information available to company management, Calabria said.

"CEOs don't have any more insight on global warming than the typical investor, so what that means is you are opening this up to somebody's option," he said.

Attorney Thomas Mounteer, a partner in the real estate department at law firm Paul Hastings who has written environmental disclosures for public companies, said predicting the impact of climate change is in many cases pure speculation. The affects of climate change could be decades off, making disclosures that offer an insight next to impossible.

"The affects are so attenuated and so distant, it's hard to see what a company will make of it today," he said.

Often, Mounteer said, reporting amounts to nothing more than an acknowledgment that legislative and regulatory changes will have some impact, hardly the most useful information for investors. Still, there may be some purpose, he said.

"What it does do," Mounteer said, "is tell investors that you have your eyes open and are looking at what is on the horizon."

Both Mounteer and Calabria, however, said there are some exceptions. Energy and oil companies who will be especially hard hit by cap and trade legislation or a change in subsidies have a duty to report that, but in most cases they already are.

"If you are somebody that will be truly impacted – if you are in an industry that this is clearly something that is a make or break on your company's performance - you should already be disclosing it," Calabria said. "The question comes when this is a secondary or tertiary impact. What do you disclose then?"

A spokesman for the SEC said the agency could not answer questions about the guidance until it is issued, expected sometime in the coming weeks.

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