

Climate Change: Will the SEC Get In Step With Other Regulators?

Climate change is an often talked about issue. Some firmly believe in it; others do not. Regardless of your view, there is a significant quantum of information available on the subject. There is also no doubt that climate has an impact on business enterprises and the ability to deliver services or product.

Viewed in this context, many investors may want to know how executives making critical decisions about the use of investor capital consider the question. The question then is what do business firms and asset managers disclose on the subject?

That topic was addressed by Ashley Asher, Chair of the International Organization of Securities Commissioners or IOSCO, the global organization of securities market regulators. Mr. Asher, also the CEO of the Hong Kong Securities and Futures Commission, delivered remarks at the Climate Change And Finance Forum 2021 on February 11, 2021.

Mr. Asher began by acknowledging that a variety of standards are used when considering the question of climate change and its impact. That is not to say, however, that regulators are not focused on an approach to the issue. There is no question that if investors are to consider how different organizations take climate into account, they “need to have access to information which is material and relevant to their decisions as well as comparable across business sectors,” the Chair stated.

There are two critical aspects to the information investors need. One focuses on what Mr. Asher called “the real economy,” that is where business decisions “have a direct impact on climate pathways.” Here standard-setters are stepping forward to help. For example, the Task Force on Climate-related Financial Disclosures -- the International Financial Reporting Standards or IFRS -- has made an important contribution, according to the IOSCO Chair. The approach would initially “focus on climate disclosure standards centered on the ‘enterprise value’ of businesses . . .” Those standards also aid firms with a framework for taking climate change into their governance and risk management

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frameworks and communicating with shareholders. Hong Kong, New Zealand, the UK and others use the standards.

Standards for asset management firms and product disclosure are also being set by regulators, according to the Chair. In Hong Kong, for example, “we have already proposed mandatory climate disclosures by asset managers . . . [those standards are centered] around the idea that investors need to know the extent to which their portfolios are financing emissions as well as portfolio exposures to climate risks,” Mr. Asher stated. And, the underlying disclosure requirements have been informed by the IFRS framework.

Mr. Asher concluded by noting that trends in the marketplace have created a situation where “International organizations, national authorities and the private sector now have no real option other than to participate . . .” in moving forward with the creation of meaningful disclosure standards.

Comment

Last fall two Commissioners -- Acting Chair Allison Herren Lee and Commissioner Caroline A. Crenshaw -- at the SEC called for updated standards on climate for the SEC. The Commission’s current standards trace to 2010. Those standards have been described and having no impact by a recent CFTC report on climate.

As Mr. Ashley made clear in his remarks, however, disclosure standards are evolving quickly around the world by standard setters, regulators and the private sector. As the primary regulator of public companies and investment advisers in the United States, it is time for the Securities and Exchange Commission to step-up on this critical question and issue new standards and regulations to guide disclosure.