

[DISCUSSION DRAFT]

116TH CONGRESS
1ST SESSION

H. R.

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

Mr. CASTEN of Illinois introduced the following bill; which was referred to the Committee on _____

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 Representatives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Climate Risk Disclosure Act of 2019”.

6 **SEC. 2. DEFINITIONS.**

7 In this Act—

1 (1) the term “appropriate climate principals”

2 means—

3 (A) the Administrator of the Environmental Protection Agency;

5 (B) the Secretary of Energy;

6 (C) the Administrator of the National Oceanic and Atmospheric Administration;

8 (D) the Director of the Office of Management and Budget; and

10 (E) the head of any other Federal agency determined appropriate by the Commission;

12 (2) the term “appropriate congressional committees” means—

14 (A) the Committee on Banking, Housing, and Urban Affairs of the Senate; and

16 (B) the Committee on Financial Services of the House of Representatives;

18 (3) the term “climate change” means a change of climate that is—

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

23 (B) in addition to natural climate variability observed over comparable time periods;

1 (4) the term “Commission” means the Securi-
2 ties and Exchange Commission;

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

6 (6) the term “1.5 degree scenario” means a
7 widely recognized, publicly available analysis sce-
8 nario in which human interventions to combat global
9 climate change are likely to prevent the global aver-
10 age temperature from reaching 1.5 degrees Celsius
11 above pre-industrial levels;

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

16 (8) the term “baseline scenario” means a wide-
17 ly-recognized analysis scenario in which levels of
18 greenhouse gas emissions, as of the date on which
19 the analysis is performed, continue to grow, result-
20 ing in—

21 (A) an increase in the global average tem-
22 perature of 1.5 degrees Celsius or more above
23 pre-industrial levels; and

24 (B) the realization of physical risks relat-
25 ing to global climate change;

1 (9) the term “carbon dioxide equivalent” means
2 the number of metric tons of carbon dioxide emis-
3 sions with the same global warming potential as one
4 metric ton of another greenhouse gas, as determined
5 under table A-1 of subpart A of part 98 of title 40,
6 Code of Federal Regulations, as in effect on the date
7 of enactment of this subsection;

8 (10) the term “commercial development of fos-
9 sil fuels” includes—

10 (A) exploration, extraction, processing, ex-
11 porting, transporting, and any other significant
12 action with respect to oil, natural gas, coal, or
13 any byproduct thereof; and

14 (B) acquiring a license for any activity de-
15 scribed in subparagraph (A);

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

19 (A) all direct greenhouse gas emissions re-
20 leased by the covered issuer;

21 (B) all indirect greenhouse gas emissions
22 with respect to electricity, heat, or steam pur-
23 chased by the covered issuer;

24 (C) significant indirect emissions, other
25 than the emissions described in subparagraph

(B), that occur in the value chain of the covered issuer; and

11 (13) the term “greenhouse gas”—

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

(14) the term “greenhouse gas emissions” means the emissions of greenhouse gas, expressed in terms of metric tons of carbon dioxide equivalent;

1 (15) the term “physical risks” has meaning
2 given the term in section 13(s) of the Securities Ex-
3 change Act of 1934;

4 (16) the term “social cost of carbon” means the
5 monetized present value, discounted at a 3 percent
6 or lower discount rate, in dollars, per metric ton of
7 carbon dioxide (or carbon dioxide equivalent), of the
8 net global costs over 300 years caused by the emis-
9 sion of carbon dioxide (or carbon dioxide equivalent,
10 as applicable) that result from—

11 (A) changes in net agricultural produc-
12 tivity;

13 (B) decreases in capital and labor produc-
14 tivity;

15 (C) effects on human health;

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

19 (E) the value of ecosystem services; and

20 (F) any other type of economic, social, po-
21 litical, or natural disruption;

22 (17) the term “transition risks” has meaning
23 given the term in section 13(s) of the Securities Ex-
24 change Act of 1934.

25 (18) the term “value chain”—

1 (A) means the total lifecycle of a product
2 or service, both before and after production of
3 the product or service, as applicable; and

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

8 (19) the term “well below 1.5 degrees scenario”
9 means a widely-recognized, publicly-available anal-
10 ysis scenario in which human interventions to com-
11 bat global climate change are likely to prevent the
12 global average temperature from reaching 1.5 de-
13 grees Celsius above pre-industrial levels.

14 **SEC. 3. SENSE OF CONGRESS.**

15 It is the sense of Congress that—

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

20 (2) many sectors of the economy of the United
21 States and many American businesses are exposed
22 to multiple channels of climate-related risk, which
23 may include exposure to—

24 (A) the physical impacts of climate change,
25 including the rise of the average global tem-

1 perature, accelerating sea-level rise,
2 desertification, ocean acidification, intensifica-
3 tion of storms, increase in heavy precipitation,
4 more frequent and intense temperature ex-
5 tremes, more severe droughts, and longer wild-
6 fire seasons;

7 (B) the economic disruptions and security
8 threats that result from the physical impacts
9 described in subparagraph (A); and

10 (C) the transition impacts that result as
11 the global economy transitions to a clean and
12 renewable energy, low-emissions economy, in-
13 cluding financial impacts as fossil fuel assets
14 risk becoming stranded and it becomes unecon-
15 omic for companies to develop fossil fuel assets
16 as policymakers act to limit the worst impacts
17 of climate change by keeping the average rise in
18 global temperature to 1.5 degrees Celsius above
19 pre-industrial levels;

20 (3) assessing the potential impact of climate-re-
21 lated risks on national and international financial
22 systems is an urgent concern;

23 (4) companies have a duty to disclose financial
24 risks that climate change presents to their investors,
25 lenders, and insurers;

1 (5) the Commission has a duty to promote a
2 risk-informed securities market that is worthy of the
3 trust of the public as families invest for their fu-
4 tures;

5 (6) investors, lenders, and insurers are increas-
6 ingly demanding climate risk information that is
7 consistent, comparable, reliable, and clear;

8 (7) including standardized, material climate
9 change risk and opportunity disclosure that is useful
10 for decision makers in annual reports to the Com-
11 mission will increase transparency with respect to
12 risk accumulation and exposure in financial markets;

13 (8) requiring companies to disclose climate-re-
14 lated risk exposure and risk management strategies
15 will encourage a smoother transition to a clean and
16 renewable energy, low-emissions economy and guide
17 capital allocation to mitigate, and adapt to, the ef-
18 fects of climate change and limit damages associated
19 with climate-related events and disasters; and

20 (9) a critical component in fighting climate
21 change is a transparent accounting of the risks that
22 climate change presents and the implications of con-
23 tinued inaction with respect to climate change.

24 **SEC. 4. FINDINGS.**

25 Congress finds that—

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

6 (A) may reasonably expect to affect share-
7 holder decision making; and
8 (B) should regularly identify, evaluate, and
9 disclose; and

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

12 (A) identify, and evaluate—
13 (i) material physical and transition
14 risks posed by climate change; and
15 (ii) the potential financial impact of
16 such risks;

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

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

21 (D) allow for intra- and cross-industry
22 comparison, to the extent practicable, of cli-
23 mate-related risk exposure through the inclu-
24 sion of standardized industry-specific and sec-
25 tor-specific disclosure metrics, as identified by

1 the Commission, in consultation with the appropriate climate principals;

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

6 (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.

10 **SEC. 5. DISCLOSURES RELATING TO CLIMATE CHANGE.**

11 (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:

14 “(s) DISCLOSURES RELATING TO CLIMATE
15 CHANGE.—

16 “(1) DEFINITIONS.—In this subsection—

17 “(A) the term ‘appropriate climate principals’ means—

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

21 “(ii) the Secretary of Energy;

22 “(iii) the Administrator of the National Oceanic and Atmospheric Administration;

1 “(iv) the Director of the Office of
2 Management and Budget; and

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

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

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

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

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

17 “(D) the term ‘physical risks’ means financial
18 risks to long-lived fixed assets, locations,
19 operations, or value chains that result from exposure
20 to physical climate-related effects, including—

22 “(i) increased average global temperatures and increased frequency of temperature extremes;

1 “(ii) increased severity and frequency
2 of extreme weather events;
3 “(iii) increased flooding;
4 “(iv) sea level rise;
5 “(v) ocean acidification;
6 “(vi) increased frequency of wildfires;
7 “(vii) decreased arability of farmland;
8 “(viii) decreased availability of fresh
9 water; and
10 “(ix) any other financial risks to long-
11 lived fixed assets, locations, operations, or
12 value chains determined appropriate by the
13 Commission, in consultation with appro-
14 priate climate principals;

15 “(E) the term ‘transition risks’ means fi-
16 nancial risks that are attributable to climate
17 change mitigation and adaptation, including ef-
18 forts to reduce greenhouse gas emissions and
19 strengthen resilience to the impacts of climate
20 change, including—
21 “(i) costs relating to—
22 “(I) international treaties and
23 agreements;
24 “(II) Federal, State, and local
25 policy;

1 “(III) new technologies;

2 “(IV) changing markets;

3 “(V) reputational impacts rel-

4 evant to changing consumer behavior;

5 and

6 “(VI) litigation; and

7 “(ii) assets that may lose value or be-

8 come stranded due to any of the costs de-

9 scribed in subclauses (I) through (VI) of

10 clause (i);

11 “(2) DISCLOSURE.—Each covered issuer, in any

12 annual report filed by the covered issuer under sub-

13 section (a) or section 15(d), shall, in accordance

14 with any rules issued by the Commission pursuant

15 to the Climate Risk Disclosure Act of 2019, include

16 in each such report information regarding—

17 “(A) the identification of, the evaluation of

18 potential financial impacts of, and any risk-

19 management strategies relating to—

20 “(i) physical risks posed to the cov-

21 ered issuer by climate change; and

22 “(ii) transition risks posed to the cov-

23 ered issuer by climate change;

24 “(B) a description of any established cor-

25 porate governance processes and structures to

1 identify, assess, and manage climate-related
2 risks; and

3 “(C) a description of specific actions that
4 the covered issuer is taking to mitigate identi-
5 fied risks.

6 “(3) RULE OF CONSTRUCTION.—Nothing in
7 paragraph (2) may be construed as precluding a cov-
8 ered issuer from including, in an annual report sub-
9 mitted under subsection (a) or section 15(d), any in-
10 formation not explicitly referenced in those para-
11 graphs.”.

12 SEC. 6. RULEMAKING.

13 (a) CLIMATE RISK DISCLOSURE RULES.—The Com-
14 mission, in consultation with the appropriate climate prin-
15 cipals, shall not later than 2 years after the date of the
16 enactment of this Act, issue rules with respect to the infor-
17 mation that a covered issuer is required to disclose pursu-
18 ant to section 13(s) of the Securities Exchange Act of
19 1934 and such rules shall—

20 (1) establish, in consultation with the appro-
21 priate climate principals, climate-related risk disclo-
22 sure guidance, which shall—

23 (A) be, to the extent practicable, special-
24 ized for industries within specific sectors of the
25 economy, which shall include—

(i) the sectors of finance, insurance, transportation, electric power, mining, and non-renewable energy; and

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

19 (C) include reporting standards for dis-
20 closing, with respect to a covered issuer—

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

15 (E) not preclude a covered issuer from
16 using and disclosing, as compared with the
17 price established under subparagraph (D), a
18 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

(A) incorporate into such disclosure—

(i) quantitative analysis to support any qualitative statement made by the covered issuer;

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

7 (v) a discussion of the short-, me-
8 dium-, and long-term resilience of any risk
9 management strategy, and the evolution of
10 applicable risk metrics, of the covered
11 issuer under each scenario described in
12 paragraph (1)(B); and

13 (vi) the total cost of carbon attrib-
14 utable to the direct and indirect green-
15 house gas emissions of the covered issuer,
16 using, at minimum, the social cost of car-
17 bon;

21 (i) a baseline scenario that includes
22 physical impacts of climate change;
23 (ii) a well below 1.5 degrees scenario;
24 and

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

12 (I) combustion;

(II) flared hydrocarbons;

14 (III) process emissions;

(IV) directly vented emissions;

(V) fugitive emissions or leaks;

17 and

18 (VI) land use changes;

19 (ii) a description of—

20 (I) the sensitivity of fossil fuel re-
21 serve levels to future price projection
22 scenarios that incorporate the social
23 cost of carbon into hydrocarbon pric-
24 ing;

16 (IV) the methodology of the cov-
17 ered issuer for detecting and miti-
18 gating fugitive methane emissions,
19 which shall include the frequency with
20 which applicable assets of the covered
21 issuer are observed for methane leaks,
22 the processes and technology that the
23 covered issuer uses to detect methane
24 leaks, the percentage of assets of the
25 covered issuer that the covered issuer

1 inspects under that methodology, and
2 quantitative and time-bound reduction
3 goals of the issuer with respect to
4 methane leaks;

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

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

22 (I) necessary;

1 (III) directed at ensuring that in-
2 vestors are informed in accordance
3 with the findings described in section
4 4;

12 (A) necessary;

15 (C) directed at ensuring that investors are
16 informed in accordance with the findings de-
17 scribed in section 4; and

23 (b) FORMATTING.—The Commission shall require
24 issuers to disclose information in an interactive data for-
25 mat and shall develop standards for such format, which

1 shall include electronic tags for information that the Com-
2 mission determines is—

3 (1) necessary;
4 (2) appropriate to safeguard the public interest;

5 or

6 (3) directed at ensuring that investors are in-
7 formed in accordance with the findings described in
8 paragraph (2)(B).

9 (c) PERIODIC UPDATE OF RULES.—The Commission
10 shall periodically update the rules issued under this sec-
11 tion to ensure that such rules further the purposes de-
12 scribed in section 4(2).

13 **SEC. 7. COMPILATION OF INFORMATION DISCLOSED.**

14 The Commission shall, to the maximum extent prac-
15 ticable make a compilation of the information disclosed by
16 issuers pursuant to section 13(s) of the Securities Ex-
17 change Act of 1934 publicly available on the website of
18 the Commission; and update such compilation at least
19 once each year.

20 **SEC. 8. BACKSTOP.**

21 If, 2 years after the date of the enactment of this
22 Act, the Commission has not issued rules pursuant to sec-
23 tion 6, and until such rules are issued, a covered issuer
24 shall be deemed in compliance with section 13(s) of the
25 Securities Exchange Act of 1934 if disclosures set forth

1 in the annual report of such issuer satisfy the rec-
2 ommendations of the Task Force on Climate-related Fi-
3 nancial Disclosures of the Financial Stability Board as re-
4 ported in June 2017, or any successor report, and as sup-
5 plemented or adjusted by such rules, guidance, or other
6 comments from the Commission.

7 **SEC. 9. REPORTS.**

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

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

14 (2) submit to the appropriate congressional
15 committees a report that contains the results of each
16 assessment conducted under paragraph (1); and

17 (3) make each report submitted under para-
18 graph (2) accessible to the public.

19 (b) GOVERNMENT ACCOUNTABILITY OFFICE.—The
20 Comptroller General of the United States shall periodically
21 evaluate, and report to the appropriate congressional com-
22 mittees on, the effectiveness of the Commission in carrying
23 out and enforcing section 13(s) of the Securities Exchange
24 Act of 1934, as added by section 5.

1 SEC. 10. SEVERABILITY.

2 If any provision of this Act, an amendment made by
3 this Act, or the application of this Act (or an amendment
4 made by this Act) to any person or circumstance is held
5 to be invalid, that holding shall have no effect with respect
6 to—

7 (1) the remainder of this Act; and
8 (2) the application of the provision or amend-
9 ment, as applicable, to any other person or cir-
10 cumstance.

11 SEC. 11. AUTHORIZATION OF APPROPRIATIONS.

12 There are authorized to be appropriated to the Com-
13 mission such sums as may be necessary to carry out this
14 Act.