Emissions Disclosure: Sense or Nonsense?

Do initiatives like the SEC's "Enhancement and Standardization of Climate-Related Disclosures for Investors" make sense?

4 Frames to think about this question and determine if this student gets straight A's or deserves a D.

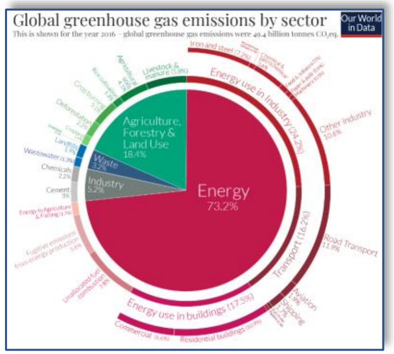
Note: Many climate-disclosure initiatives also require other (more qualitative) things than only (quantitative) emissions disclosures. And the SEC (unlike other rule makers) is pretty clear about the problem it wants to solve (investor risk). But: much of the discussion and work focuses on (quantitative) emissions disclosure, and many also see disclosure as an enabler of climate action – i.e. a way to reduce emissions.

Accuracy?

Assumption: we need accurate emissions data. Questions:

☐ *How* accurate can we get / do we need?

☐ Do we already *have* (reasonably) accurate data?



On October 30, 2009, the U.S. Environmental Protection Agency (EPA) published a rule for the mandatory reporting of greenhouse gases (GHG) from sources that in general emit 25,000 metric tons or more of carbon dioxide equivalent per year in the United States. Smaller sources

☐ *Who* benefits from the requirement to (more) accurately measure emissions?

Attributability?

Assumption: we need to attribute emissions to specific companies. Questions:

☐ Should we *distinguish* more between Scope 1 & 2 on the one hand, and Scope 3 on the other?

☐ *Can* Scope 3 emissions really be attributed to specific companies? Can dog poop be attributed to specific dog food manufacturers?

☐ Do we *need* to attribute emissions to specific companies, e.g. because in the future there will be "strings attached"? Like a carbon tax?

☐ Do PMs and analysts actually assess climate-risk already? How? What additional (company / public policy / technological) info do they need? Is the risk actually that high, or that unknown?

☐ Are (future) carbon taxes likely to be based on emissions disclosures? Sweden example:

The carbon tax is levied on all fossil fuels in proportion to their carbon content, as carbon dioxide emissions released in burning any fossil fuel are proportional to the carbon content of the fuel. It is therefore not necessary to measure actual emissions, which greatly simplifies the system. Combustion of sustainable biofuels doesn't result in a net increase of carbon in the atmosphere and hence are not subject to carbon taxation.

Agency?

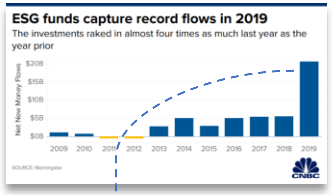
Assumption: we need emissions info to assess Net Zero claims → companies have agency to reduce emissions. Questions:

☐ Companies can usually control Scope 1 & 2 emissions directly. However, how much can they control Scope 3 emissions?

☐ *Where* companies can influence Scope 3 – how much of this is structural / system change and how much is shifting emissions elsewhere?

☐ How much agency do investors have to make companies reduce emissions? Do investors have incentives for this in the absence of materiality or "strings attached", or are other tools better suited? How much of emissions do listed equity markets even 'control'?

☐ Can private sector efforts get the economy Paris-aligned? Can firms steward the needed innovation?



☐ Investors must back up their *own* Net Zero claims. But *can* their, or corporate, claims even be 'effective' without effective carbon offsets? Should they invest in removals instead?

Distraction?

Assumption: Emissions disclosure is the highest priority. Questions:

☐ *Is* it the highest priority? Are we *not* dedicating attention, money & effort to other more needed actions (public policy measures, new technology investments; EM & blended finance) because of a disclosure preoccupation? Are we creating the illusion of progress?

☐ Are we protecting incumbents? Are we prolonging their life by giving them a "license to operate" (disclosure compliance). When we force them into new technologies do we make sure they have competitive advantage there?

☐ Are we confusing "climate risk management" with "climate action"? Confusing "urgency" with "agency"?

Matt Levine: "One way to understand the proliferation of ESG reporting regimes, carbon credit trading systems, etc., is that adding a lot of rules and complexity to ESG *makes it feel more like finance.*"

Decide for yourself:

A or D?

Or perhaps even an … ?

F

see me after class!