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MARKETS

# Show Us Your Climate Risks, Investors Tell Companies

Companies are expected to face a record of 75 or more climate-related shareholder proposals at coming annual meetings

*By Gabriel T. Rubin*

Feb. 28, 2019 5:30 a.m. ET

Companies are under more pressure than ever to disclose their exposure to climate-change risks.

In the coming annual-meeting season, companies are projected to face a record of 75 or more climate-related shareholder proposals, up from 17 in 2013, according to ISS Analytics, the data-intelligence arm of Institutional Shareholder Services. Investing powerhouses such as BlackRock Inc. and Vanguard Group are separately backing voluntary climate-change reporting standards for public companies and hope to prompt an uptick in disclosures this spring.

Annual meetings, which typically take place in the spring, are an opportunity for activist shareholders to put pressure on companies because of a process that allows them to submit proposals for a shareholder vote.

Rainwater from Hurricane Harvey surrounds oil refinery storage tanks in Texas City, Texas, in 2017. PHOTO: LUKE SHARRETT/BLOOMBERG NEWS

DowDuPont Inc., instance, received a proposal for its 2019 proxy ballot that asked for more disclosures about risks from expanding chemical-plant operations near the Gulf of Mexico. Major storms there, such as Hurricane Harvey, can cause damage and spills. A spokesman for DowDuPont declined to comment.

Starbucks Corp. , meanwhile, is facing pressure from both shareholders and its own environmentally conscious consumer base. Last year, 29% of Starbucks shareholders voted for the company to make public detailed plans about how it was going to promote reusable packaging and cut its use of plastic.

The proposal warned that Starbucks's reputation as an environmental leader could be hurt by its failure to meet its own sustainability goals. The proposal is on the company's 2019 proxy ballots released in early February. Starbucks's board of directors recommended against the proposal.

Beyond individual company initiatives, BlackRock, Vanguard, State Street Global Advisors and others are among institutional investors backing the Sustainability Accounting Standards Board, a nonprofit organization that wants to standardize and increase corporate environmental disclosures. The group in November formally released a set of voluntary standards companies can follow.

"What we're trying to do is maximize the value of the companies in the portfolio, protect the downside, and move the needle in a direction that we think reflects important material issues company by company," Barbara Novick, a BlackRock senior executive, said in a Feb. 7 Washington speech.

The Financial Stability Board, an international consortium of regulators, is separately tracking voluntary climate reporting and will issue a report this June.

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- A Warming Climate Brings New Crops to Frigid Zones (Nov. 25)

JetBlue Airways was an early adopter of SASB's approach, launching its voluntary disclosures in 2016. In its 2017 sustainability report, the company said a rise in interest in climate issues followed years of especially volatile hurricane seasons in the Atlantic Ocean.

"For an airline like JetBlue with a significant focus in the Caribbean, the prospect of more extreme storms raises a legitimate concern: How prepared is JetBlue to deal with changing weather patterns that may be caused by climate change?" JetBlue's report said.




Some companies are taking an additional step by making climate-related pledges. Glencore PLC, one of the world's biggest coal producers, said in February that it would cap its output of the fossil fuel. Royal Dutch Shell PLC, Europe's largest oil-and-gas company, bowed to shareholder demands in December to set emission-reduction targets from the use of its products.

Such disclosures and actions are mostly voluntary or at the request of shareholders, rather than a result of any regulatory mandate.

Some investors, Democratic politicians and environmental groups are pushing for mandatory disclosures. But the Securities and Exchange Commission so far hasn't required specific climate-related disclosures, instead telling companies to hew to broader criteria for what public companies must disclose as a material risk.



There are also calls for federal backing for SASB-style disclosures to boost their comparability and spur more detailed reporting from companies.

"You're not going to get proper disclosure without some sort of mandate," said Jill Fisch, a University of Pennsylvania Law School professor who co-authored a petition for rule-making at the SEC on behalf of several public retirement funds, including those from California, New York and Illinois.

However, mandating disclosures that rely on speculative long-term predictions about climate change could expose companies to fraud liability, said J.W. Verret, a professor at George Mason University's Antonin Scalia Law School and a member of the SEC's Investor Advisory Committee.

“Materiality is the keystone in the architecture of federal securities laws,” he said. “You tinker with that keystone at your peril.”

The SEC, under Chairman Jay Clayton, has held to its definition of what requires disclosure: If something will have a material impact on a company’s performance, it should be disclosed.

Shareholders will vote again on a proposal for Starbucks to make public its plans to cut its use of plastic. **PHOTO:** JUSTIN SULLIVAN/GETTY IMAGES

Mr. Clayton reiterated that position in a Feb. 5 meeting with Sen. Brian Schatz (D., Hawaii), people familiar with the matter said. Mr. Schatz has pressed the SEC to mandate climate disclosures, including in December at a Senate Banking Committee hearing where Mr. Clayton testified.

An SEC spokeswoman declined to comment beyond prior public remarks made by Mr. Clayton.

“Publicly traded companies are not immune to the risks from climate change,” Mr. Schatz said in an email. “The next step is to put in place a meaningful climate risk disclosure framework.”

Mr. Clayton doesn’t see the need for the SEC to immediately step in. “There’s no need to change the framework,” he told the Investor Advisory Committee in a December speech. “But what goes into the framework is something that we need to continue to assess.”

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