

Conference on Standardized Corporate Social Responsibility Reporting  
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Because it is the “CSR” topic I know about in-depth, and because it has been the unique focus of recent regulation in the EU and the US, I will mainly focus here on climate-related disclosures. I foresee many challenges for standardization related to consensus and coordination even with a limited focus on climate, but it is nevertheless much needed. In the climate arena, corporate-level metrics like “Scope” emissions established by the GHG Protocol have proliferated in use, traveling from the corporate, to investor, to financial regulatory space. Retail investor-facing metrics like a portfolio’s “Implied Temperature Rise (ITR),” based on corporate-level Scope emissions, are becoming common. These metrics increasingly incorporate “Scope 3” emissions, which are estimated in a variety of ways if not voluntarily reported by the company. In the parlance of securities disclosure, “Scope 3” emissions are often described as falling within the umbrella of “double materiality,” but not the investor-focused “single-materiality.” But for a variety of reasons, any investor assessment of corporate emissions exposure--either for financial transition risk or climate advocacy monitoring--needs to include Scope 3 emissions. Scope category emissions are as arbitrary as corporate boundaries: Factories owned by Samsung are contracted to manufacture Apple products, for example.

Investors are increasingly asking for “science-based” emissions targets from corporations, and there are various newer measures of how “on-track” a corporation is compared to what their “share” of global reductions by 2050 should be. The Science Based Targets Initiative (SBTi) appears to be the current frontrunner in standardizing corporate targets, though not without criticism. At present, targets cover a wide variety of types of emissions, under different types of commitments with different horizons. This may be fine, but it does make it challenging to compare across companies. Whether or not a corporation has SBTi-certified targets is playing an increasingly important role, as the European Central Bank alluded to using “science-based” targets in its new tilting program for corporate bond purchasing that strays from “market neutrality” for the first time.

SBTi, like the Greenhouse Gas Protocol, is not a governmental organization. It is a non-profit funded by primarily by Amazon. Both programs have transparent procedures, updating, and governance structures for “stakeholder” input –but it may be worth questioning the foundation before we build an entire edifice on top. However two particular issues are more concerning to me. First, there is clearly a lingering lack of expertise by institutional investors and other “ESG” players that manifests in the use of metrics (like ITR) that may make little practical sense, due to the metric either resting on shaky data foundations, or a questionable scientific or financial approach. The role of financial regulation in this space deserves debate. Investing decisions are clearly subjective, we allow investors to choose their own strategies—but with the network of intermediaries between an employee and her shares, including her employer, institutional investor, asset manager, fund manager, data providers, and index licensor, I worry that in the world of climate risk much is getting lost in translation. This can lead to both greenwashing and asset mispricing. Second, and relatedly, is the enormous issue of what disclosure of physical climate risks should even look like and how regulators could go about standardizing them. At present, physical risks lack the history and robust framework that developed around transition risk and emissions. And the process of calculating climate risk exposure under different time horizons can be even more burdensome than tracking down supply chain emissions. Nevertheless, as recent state home insurance failures demonstrate, physical risks are on the rise and deserve more attention.