I would frame the reporting obligation in terms of sustainability rather than corporate social responsibility. In my view, the purpose of a reporting requirement is to make explicit the fact that an increasingly broad range of issues that were historically viewed as noneconomic are at least potentially relevant to firm economic value and should be disclosed to capital market investors. Although many of these matters are the subject of voluntary disclosure through sustainability reports, a voluntary framework renders this information inconsistent and unreliable. Mandatory disclosure requirements offer the prospect of standardizing disclosure, developing norms, and improving information quality as well as subjecting disclosures to regulatory oversight.

I would require sustainability disclosure as part of federal securities regulation. I believe that sustainability disclosure is important in enabling market participants accurately to evaluate a firm’s long term economic value, business model, management quality and potential risks. To the extent that sustainability information is disclosed to market participants, market forces will increase allocational efficiency. Better disclosure will also enable market participants and researchers to interrogate claims about the relationship between certain types of socially responsible behavior and economic value, leading to useful data on the extent to which corporations can do well by doing good and about potential trade-offs between certain types of socially responsible behavior and profitability (consider for example reporting obligations that provide meaningful data on the costs of a transition to net zero). I further believe that disclosure obligations will generate new and valuable information for firms about business challenges ranging from climate risk and cybersecurity to human capital management and diversity. This information will improve the quality of operational decisionmaking.

Incorporating sustainability disclosure into securities filings would also enable the Securities & Exchange Commission to oversee and enforce that disclosure. Disclosure attorneys would be involved in formulating that disclosure, SEC staff would benefit from their oversight function in being able to standardize disclosures and identify anomalies and market participants could police the accuracy of disclosures through litigation.

I question efforts to use capital market disclosure requirements as a substitute for substantive regulation or in basing disclosure requirements on noneconomic considerations or stakeholder interests. First, there are too many stakeholders for such a reporting obligation to be feasible. Second, I am skeptical that even the concept of single materiality – which was developed in the context of securities fraud litigation – provides a workable framework for determining affirmative disclosure obligations as opposed to discerning when a misstatement is actionable. For disclosures relevant to a specific stakeholder group, I believe that the agency charged with addressing that group’s interests (such as the EPA, EEOC, FCC, etc.) should formulate disclosure requirements addressing those interests. Thus the SEC’s disclosure requirements should be addressed to shareholder interests.

Finally, I am wary of framing sustainability disclosure in terms of a corporation’s responsibility because it invites confusion between claims over value and values. I question the legitimacy of corporate agents (officers and directors) and institutional investor intermediaries in making values-based decisions about the responsibility of corporations to address societal concerns.