Status of Disclosure of Environmental Risks

by

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SUMMARY

Focus

The US securities laws require companies to disclose any liabilities that might have a material effect on their financial condition. This presentation will discuss the role of investors in forcing corporations to disclose environmental risks associated with global warming.

Background

Since the 1970s, social investors have argued that environmental liabilities should be quantified and disclosed. Apart from Super Fund liabilities, however, companies resisted disclosure because they would externalize or insure against such costs. Social investors found little support amongst the financial services industry which regarded their efforts as quixotic, annoying. That is, until the late 1990s when the global warming issue precipitated major changes in thinking.

Global Warming Impact

First, the insurance industry and then financial services in Europe in co-operation with the United Nations Environment Program (UNEP) began focusing on liabilities associated with global warming.

The Europeans' interest was not, of course, strictly from an investment perspective: Leading financial centers at sea level or below include London, Amsterdam and Stockholm. Awareness of historical changes in climactic conditions prompted action: The river Thames has frozen less than ten times in the past 100 years. But 400 years ago, London had annual Thames ice festivals on the magnitude of Minneapolis-St. Paul's today.

Slower US Response

The US insurance and financial services industries have been much slower to grasp global warming's implications. But the globalization of these industries and their non-US owners have increased their awareness to a point where they are beginning to take action. They have, for instance, forced coal-fired utilities such as American Electric Power to report on the steps they are taking to minimize and reduce green-house gas emissions.

Conclusions

It seems safe to predict that financial services will use its leverage as a counter-weight to the Bush II administration's position on global warming. And when circumstances compel a reversal of the administration's course of denial, watch the insurance and financial services industries for tips on how the new policies will look.

Peter Kinder: is President, KLD Research & Analytics Inc., of Boston, Massachusetts. He co-founded KLD in 1988. He has served as KLD's President since then. Peter, Steve Lydenberg and Amy Domini are authors of The Social Investment Almanac (Henry Holt, 1992) and Investing for Good (Harper Business, 1993). He collaborated with Amy Domini on Ethical Investing (Addison-Wesley, 1984), and co-authored Law and Business (McGraw-Hill, 1982/94). His articles have appeared in numerous publications in the US, the UK and Canada. Peter has served two terms on the board of the Social Investment Forum. He also works closely with social investment groups in Canada and the United Kingdom. In 1992, he received the First Affirmative Financial Network SRI Service Award. Peter received an A.B. in History from Princeton University in 1970 and was awarded a J.D. from Ohio State University in 1973. He was admitted to the bar in Ohio (1973), the District of Columbia (1977), and Massachusetts (1978).