Disclosure, Securities, and Climate Change

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Starting point – Climate Libel?

• Fundamental starting point – it is perfectly legal to deny climate change. Loudly, vigorously, persistently

• Only creates important liability and governance issues when denialism occurs in certain legal domains

• Important – Knowledge Alone Can Create Governance
Overview – Key Reporting Obligations

- Foundation – Securities Exchange Act and implementing regulations
- Specific requirements under Reg SK:
  - Item 101 – general description of business & risks
  - Item 103 - legal proceedings
  - Item 303 – MD&A (trends)
  - Item 503(c) – risk factors
- Enforcement: comment letter, subpoenas, administrative or judicial action
- SEC Interpretive Guidance 2010
Climate change and greenhouse gas restrictions. Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These include adoption of cap and trade regimes, carbon taxes, restrictive permitting, increased efficiency standards, and incentives or mandates for renewable energy. These requirements could make our products more expensive, lengthen project implementation times, and reduce demand for hydrocarbons, as well as shift hydrocarbon demand toward relatively lower-carbon sources such as natural gas. Current and pending greenhouse gas regulations may also increase our compliance costs, such as for monitoring or sequestering emissions.
Other disclosure risks

• Martin Act
  – NY Attorney General’s role and jurisdiction
  – Prior subpoenas
  – Settlements: AES, Dynegy
  – Peabody Coal

• Criminal liability (also civil conspiracy)

• CERES Principles

• Carbon Disclosure Project

• Shareholder resolutions (Exxon, May 2017)
Stranded Assets and Financial Risk Disclosure

Comparison of the global 2°C carbon budget with fossil fuel reserves CO₂ emissions potential
CARBON BUBBLE
Emissions from burning all known reserves of coal, oil and natural gas.

2.795 billion tons of CO₂

Remaining carbon budget
This is how much CO₂ can be emitted until 2050 and still give a reasonable chance of staying below 2 degrees Celsius of global warming.

Source: Carbon Tracker
Stranded Carbon and Risk Disclosure

• Carbon Asset Risk Initiative
  – Arguably can result in loss of 40-60% company valuation
  – Focus on “low return” activity from further reserves development
  – Detailed information request letters to top 45 publicly traded energy companies

• Result – direct carbon risk disclosure reports by targeted companies
Carbon Asset Risk Report

2016 Hess Proved Reserves by Region*
1,109 Million Barrels of Oil Equivalent

*Hess' proved reserves consist of 74 percent liquids (i.e., light and medium crude oils, condensate and natural gas liquids) and 26 percent natural gas.

Our stakeholders have expressed an interest in understanding the potential impact that future climate change regulation may have on Hess’ market valuation.
Thought Experiment – the most vulnerable assets?
Reflexive management and self-governance

• Lessons from EPCRA, the Toxic Release Inventory, and Self-Regulation
  – Constitutional constraints on mandated disclosure
  – Market attraction

• Deep Decarbonization Pathways Project

• State-driven liability initiatives

• Growing interest in carbon emissions as taxable revenue source

Source: EIA, Annual Energy Outlook 2012
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