

Global consensus needed to develop climate risk disclosures for companies

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As the United Nations Climate Change Conference in Glasgow ends today, the United States and other G7 countries need to continue to consider adoption of a global framework for mandatory climate risk disclosure by companies.

But making disclosures mandatory globally is challenging when there are two different corporate governance systems practiced in the world's economies, said Paul Griffin, professor in the Graduate School of Management at the University of California, Davis, and lead author of

an article published today in *Nature Energy*.

"Most fundamentally, the borderless nature of carbon emissions and financial capital requires that any mandatory climate risk discourse framework will also have to be global to be effective," Griffin said in the article.

The article, "Challenges for a climate risk [disclosure](#) mandate," is co-authored by Amy Myers Jaffe of the Climate Policy Lab, Tufts University.

Two basic systems

U.S. shareholders, for example, have strong shareholder rights with a high level of disclosure required by firms. Other economies, such as in Asia and the European Union, traditionally operate in a blockholder system, whereby blockholders exert governance through direct intervention in a firm's operations. No single corporate governance model exists that has wide-scale acceptance, Griffin said.

Meanwhile, [extreme weather events](#) throughout the world this past summer have created a new sense of urgency to achieve a net-zero [global economy](#), researchers suggest in the article. Asset managers and large asset owners have made efforts to force energy firms to align with global climate goals; investors are demanding climate-friendly environmental, social and governance stocks; President Biden has issued an executive order calling for mandatory climate risk disclosures by firms; and Congress has passed legislation calling for the same.

Regulators should work at a global level, Griffin said, to fashion a [hybrid model](#) that addresses climate risk and climate risk disclosure in a manner that strengthens shareholder rights to press for [climate](#) disclosure, but aligns with the longer term perspective of a blockholder system.

"Rapid convergence of [governance](#) systems into a hybrid global model is essential, given the pressing need for a timely transition to net-zero business principles and to hold global temperatures to a 1.5-degree C rise compared with pre-industrial levels," he said.

More information: Paul Griffin et al, Challenges for a climate risk disclosure mandate, *Nature Energy* (2021). [DOI: 10.1038/s41560-021-00929-z](#)

Provided by UC Davis

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