
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair
2021 - 2022 Regular Session

SB 449 (Stern) - Climate-related financial risk

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Urgency: No

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Policy Vote: B. & F.I. 6 - 2, E.Q. 5 - 2

Mandate: No

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Bill Summary: SB 449 establishes the Climate-Related Risk Disclosure Advisory Group to review and analyze systemic and sector-wide climate-related financial risks to the state through climate-related financial risk reports prepared by California businesses with annual gross revenues of at least \$500 million, as specified.

Fiscal Impact: The Office of Planning and Research anticipates costs of approximately \$404,000 (General Fund) annually to provide administrative support to the advisory group, and to post and maintain climate-related financial risk reports on its internet website.

The Secretary of State (SOS) anticipates:

- Program costs of approximately \$1,159,990 in the first year to provide notifications to all business entities; and ongoing costs of approximately \$121,000 for workload related to managing submitted risk reports (Business Fees Fund).
- Information technology costs of approximately \$4,082,690 in the first year to establish interagency and intergovernmental data transfers, develop reporting forms, potentially create an online filing database; and ongoing costs of approximately \$904,490 to maintain and store filings, transmit reports to the Office of Planning and Research, and provide for staff management of report data.

Background: The Task Force on Climate-related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board, an international body that monitors and makes recommendations about the global financial system. The purpose of the TCFD is to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. The TCFD is chaired by Michael Bloomberg and is comprised of 31 members from across the world, representing both preparers and users of financial disclosures.

In 2017 the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. 3 The disclosure recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and target. The recommendations of the report are summarized below.

Governance: Disclose the firm's governance around climate-related risks and opportunities.

- Describe the organization's governance around climate-related risks and opportunities.
- Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

- Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
- Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
- Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management: Disclose how the organization identifies, assesses, and manages climate-related risks.

- Describe the organization's processes for identifying and assessing climate-related risks.
- Describe the organization's processes for managing climate-related risks.
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Metrics and Targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

- Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
- Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
- Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

The TCFD published its third annual status report in September 2020, which reported significant momentum around adoption and support of its recommendations.⁴ More than 1,500 firms globally have expressed support for the recommended disclosures, many of which have begun to implement the TCFD recommendations or continue to refine and improve their climate-related financial disclosures. The recommendations have also seen increased support among investors, regulators, and other government entities.

Proposed Law:

- Requires, by December 31, 2022 and annually thereafter, a covered entity to prepare a climate-related financial risk report disclosing its climate-related financial risk and the measures adopted to reduce and adapt to those risks.

- Requires the report to be submitted to the SOS and also made available on the covered entity's internet website.
- Requires, by January 31, 2023 and annually thereafter, the SOS to deliver all copies of the climate-related financial risk reports to the advisory group.
- Requires the advisory group to collect and review climate-related financial risk reports; annually prepare a public report that includes a review and analysis of the entity's climate-related financial risks, identification of inadequate or insufficient reports; and regularly convene representatives of sectors responsible for reporting climate-related financial risks.
- Requires the Office to make all climate-related financial risk reports from the advisory group available on its internet website.
- Requires the Office to serve as the administrative staff for the advisory group.
- Establishes definitions.
- States findings and declarations.

Staff Comments: The SOS notes that it will require an information technology project that will likely exceed its delegated authority, which would require oversight by the California Department of Technology. As a non-delegated project, The SOS anticipates the need for additional resources for both SOS and external project management support. The SOS notes that its current IT resources are being utilized by its ongoing California Business Connect project and additional fiscal impacts as a result of this bill are not absorbable within existing resources.

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