



GAO

Accountability \* Integrity \* Reliability

United States Government Accountability Office  
Washington, DC 20548

---

August 4, 2004

The Honorable Jon S. Corzine  
United States Senate

Subject: *Environmental Disclosure: Briefing on GAO's Findings and Recommendations*

Dear Senator Corzine:

The Securities and Exchange Commission's (SEC) primary mission is to protect investors and the integrity of securities markets. Among other things, SEC regulations require companies to file reports with SEC disclosing information that would be considered "material" to a reasonable investor. A matter is material if there is a substantial likelihood that a reasonable person would consider it important. Environmental risks and liabilities are among the conditions that, if undisclosed, could impair the public's ability to make sound investment decisions. For example, the discovery of extensive hazardous waste contamination at company-owned facilities could expose a company to hundreds of millions of dollars in cleanup costs, while impending environmental regulations could affect a company's future financial position if the company were required to shut down plants or invest in expensive new technology. To monitor companies' disclosures, SEC reviews their filings and issues comment letters requesting revisions or additional information, if needed. Although the Environmental Protection Agency (EPA) does not have a direct role in monitoring environmental disclosures, the agency notifies companies of potential disclosure obligations and periodically shares relevant information with SEC.


This letter formally transmits to you the slides we used to provide a briefing on issues related to the disclosure of environmental information in SEC filings at a symposium on July 15, 2004, sponsored by you; Senators Lautenberg, Lieberman, McCain, and Nelson; and Representatives Blumenauer, Doggett, Markey, Michaud, Olver, Pallone, Payne, and Solis. (See enclosure I.) The briefing was based on our recent report, *Environmental Disclosure: SEC Should Explore Ways to Improve Tracking and Transparency of Information* ([GAO-04-808](#), July 14, 2004). The report addresses (1) key stakeholders' views on how well SEC has defined the requirements for environmental disclosure, (2) the extent to which companies are disclosing such information in their SEC filings, (3) the adequacy of SEC's efforts to monitor and enforce compliance with the disclosure requirements, and (4) experts' suggestions for increasing and improving environmental disclosure. Our review of these issues was conducted in accordance with generally accepted government auditing standards.

-----

We are sending copies of this letter to the Chairman of SEC; the Administrator, EPA; and to other interested parties. The letter will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

Please call me at (202) 512-3841 if you or your staff have any questions. Major contributors are listed in enclosure II.

Sincerely yours,

A handwritten signature in black ink, reading "John B. Stephenson". The signature is written in a cursive style with a long horizontal flourish extending to the right.

John B. Stephenson  
Director, Natural Resources  
and Environment

Enclosures - 2



---

**Environmental Disclosure:  
SEC Should Explore Ways to Improve  
the Tracking and Transparency of  
Information**

---

**Statement of John B. Stephenson  
Director, Natural Resources and Environment  
July 15, 2004**

---

---

## Research Objectives

---

Determine:

- Stakeholders' views on how well SEC has defined the disclosure requirements
  - Extent of environmental disclosure
  - Adequacy of SEC's monitoring and enforcement
  - Experts' suggestions for improving environmental disclosure
-



---

## **Obj. 1: Stakeholders' Views on How Well SEC Has Defined the Requirements**

---

What we did:

- Reviewed SEC's disclosure regulations along with relevant standards and guidance from SEC, FASB, and AICPA
  - Interviewed key stakeholders including both users and preparers of the information in SEC filings
-



---

## Stakeholders Consulted by GAO

---

- AIG Environmental
  - American Bar Association
  - American Chemistry Council
  - Business Roundtable
  - Coalition for Environmentally Responsible Economies
  - Domini Social Investments
  - Edison Electric Institute
  - Financial Accounting Standards Board
  - Financial Reporting Advisors LLC
  - Friends of the Earth
  - Guida, Slavich & Flores, P.C
  - Morningstar, Inc.
  - Pricewaterhouse Coopers LLP
  - Social Investment Forum
  - The Brattle Group, Inc.
  - The Calvert Group
  - The Good Neighbor Project for Sustainable Industries
  - The Rose Foundation
  - University of Illinois School of Law
  - World Business Council for Sustainable Development
  - World Resources Institute
-



---

## **Obj. 1: Stakeholders' Views on How Well SEC Has Defined the Requirements**

---

What we found:

Disagreement about flexibility and scope of requirements for SEC filings.

- Some users believe the existing requirements are too flexible and too narrowly scoped
  - Some preparers and other stakeholders believe the opposite
-



---

## **Obj. 2: Extent of Environmental Disclosure**

---

What we did:

- Identified and analyzed 27 recently completed studies on environmental disclosure
  - Examined disclosures related to impacts of potential controls on greenhouse gas emissions at selected electric utilities
-





---

## **Obj. 2: Extent of Environmental Disclosure**

---

### Findings:

- In general, studying the extent of disclosure is very difficult.
  - Despite strong limitations, studies provide tentative insights about the amount of disclosure but not its adequacy.
  - Disclosures by electric utilities varied widely and did not include estimates of potential cost impacts.
-



## Electric Utility Disclosures Related to Potential Greenhouse Gas Controls

Category of potential impacts	Number of companies making disclosures	Number of companies with no disclosures
Kyoto Protocol	14	6
Current policy on voluntary reductions	9	11
Other current or proposed controls	16	4



---

## **Obj. 3: Adequacy of SEC's Monitoring and Enforcement**

---

What we did:

- Reviewed procedures, studies, and statistics
  - Met with SEC's Division of Corporation Finance and Division of Enforcement
  - Met with EPA's Office of Enforcement and Compliance Assurance
-



---

## **Obj. 3: Adequacy of SEC's Monitoring and Enforcement**

---

What we found:

- SEC does not systematically track the nature of comments on filings
  - SEC does not have a public database of comment letters and responses
  - SEC and EPA have made efforts to coordinate, but information sharing is limited
-



## SEC's Reviews of Companies' Annual 10-K Filings

	1999	2000	2001	2002	2003
Annual filings	13,460	14,280	14,060	13,550	12,830
Number reviewed by SEC	2,345	1,160	2,305	2,695	2,170
Percent reviewed by SEC	17.4	8.1	16.4	19.9	16.9



---

## **Obj. 4: Experts' Suggestions for Improving Environmental Disclosure**

---

What we did:

- Conducted a Web-based survey of 30 experts that use the filings
  - Obtained perspectives of businesses that would be affected by the suggestions
-



---

## Affiliations of Experts Who Provided Views on Improving Disclosure

---

- GovernanceMetrix International, Inc.
  - World Resources Institute
  - Harvard Business School
  - Friends of the Earth
  - R.G. Associates, Inc.
  - PricewaterhouseCoopers LLP
  - Vanderbilt University
  - Investor Responsibility Research Center
  - LeBeouf, Lamb, Greene, and MacRae, LLP
  - Towson University
  - Calvert Funds
  - National Academy of Public Administration
  - Office of Connecticut State Treasurer
  - The Brattle Group
  - Western Michigan University
-



---

## Affiliations of Experts Who Provided Views on Improving Disclosure

---

- Office of Attorney General, State of New York
  - The Rose Foundation
  - Domini Social Investments LLC
  - Sidley Austin Brown & Wood
  - Illinois State University
  - AIG Environmental
  - Stratus Consulting, Inc.
  - Financial Reporting Advisors LLC
  - Guida, Slavich & Flores, P.C.
  - Standard & Poor's
  - Ernst & Young
  - Sonoma State University
  - Pillsbury Winthrop LLP
  - Innovest Strategic Value Advisors, Inc.
  - University of Illinois College of Law
-





---

## **Obj. 4: Experts' Suggestions for Improving Environmental Disclosure**

---

What we found:

- Experts suggested:
    - modifying the requirements and guidance,
    - increasing SEC oversight,
    - pursuing nonregulatory initiatives
  
  - Some experts commented that certain suggestions are unnecessary or unworkable
  
  - Reporting companies said some suggestions would not improve disclosure
-

---

## Key Conclusions

---

- Without more compelling evidence that environmental disclosure is inadequate, the need for changes to existing requirements or guidance or increased monitoring and enforcement is unclear.
  - SEC should ensure that it has the information it needs to allocate its oversight resources and determine where additional guidance might be warranted.
-



---

## Recommendations

---

We recommend that SEC

- Track key information from its reviews of company filings to facilitate analysis
- Explore the creation of a publicly accessible database of comment letters and company responses.

SEC is taking steps toward implementing these recommendations.

We also recommend improved coordination between SEC and EPA on environmental disclosure.

---

GAO Contacts and Staff Acknowledgments

**GAO Contacts**

John B. Stephenson, (202) 512-3841  
Ellen Crocker, (617) 788-0580

**Staff Acknowledgments**

In addition to the individuals named above, Kate Bittinger, Mark Braza, Stephen Cleary, Evan Gilman, Kevin Jackson, Rich Johnson, Les Mahagan, Tom Melito, Lynn Musser, Cynthia Norris, and Judy Pagano made key contributions to this report.

---

---

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

---

## GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site ([www.gao.gov](http://www.gao.gov)). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to Updates."

---

## Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000  
TDD: (202) 512-2537  
Fax: (202) 512-6061

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Congressional Relations

Gloria Jarmon, Managing Director, [JarmonG@gao.gov](mailto:JarmonG@gao.gov) (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, D.C. 20548

---

## Public Affairs

Jeff Nelligan, Managing Director, [NelliganJ@gao.gov](mailto:NelliganJ@gao.gov) (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548