United States Government Accountability Office

Report to the Honorable Mark Warner
U.S. Senate

PUBLIC COMPANIES

Disclosure of Environmental, Social, and Governance Factors and Options to Enhance Them

Accessible Version

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GAO-20-530

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GAO Highlights

Highlights of GAO-20-530, a report to the Honorable Mark Warner, U.S. Senate

Why GAO Did This Study

Investors are increasingly asking public companies to disclose information on ESG factors to help them understand risks to the company's financial performance or other issues, such as the impact of the company's business on communities. The Securities and Exchange Commission requires public companies to disclose material information—which can include material ESG information—in their annual 10-K filings and other periodic filings.

GAO was asked to review issues related to public companies' disclosures of ESG information. This report examines, among other things, (1) why investors seek ESG disclosures, (2) public companies' disclosures of ESG factors, and (3) the advantages and disadvantages of ESG disclosure policy options.

GAO analyzed 32 large and mid-sized public companies' disclosures on 33 selected ESG topics. Among other criteria, GAO selected companies within eight industries that represented a range of sectors in the U.S. economy and selected ESG factors that were frequently cited as important to investors by market observers. GAO also reviewed reports and studies on ESG policy proposals and interviewed 14 large and mid-sized institutional investors (seven private-sector asset management firms and seven public pension funds), 18 public companies, 13 market observers (such as ESG standard-setting organizations, academics, and other groups), and international government, stock exchange, and industry association representatives.

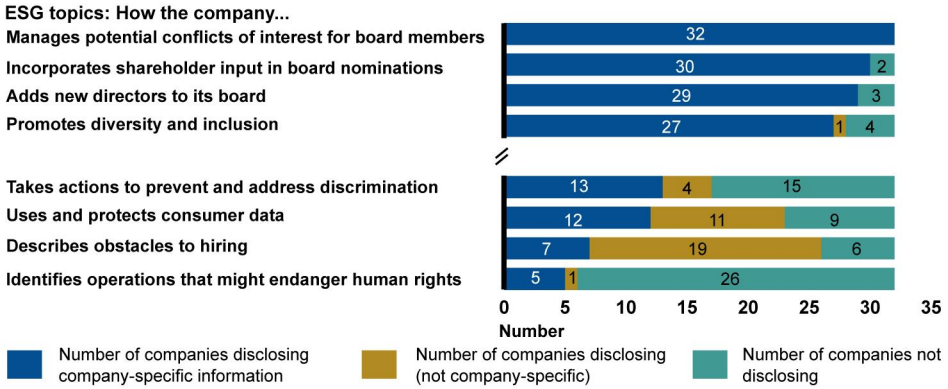
View GAO-20-530. For more information, contact Michael Clements at (202) 512-8678 or ClementsM@gao.gov.

What GAO Found

Most institutional investors GAO interviewed (12 of 14) said they seek information on environmental, social, and governance (ESG) issues to better understand risks that could affect company financial performance over time. These investors added that they use ESG disclosures to monitor companies' management of ESG risks, inform their vote at shareholder meetings, or make stock purchasing decisions. Most of these institutional investors noted that they seek additional ESG disclosures to address gaps and inconsistencies in companies' disclosures that limit their usefulness.

GAO's review of annual reports, 10-K filings, proxy statements, and voluntary sustainability reports for 32 companies identified disclosures across many ESG topics but also found examples of limitations noted by investors. Twenty-three of 32 companies disclosed on more than half of the 33 topics GAO reviewed, with board accountability and workforce diversity among the most reported topics and human rights the least. Disclosure on an ESG topic may depend on its relevance to a company's business. As shown in the figure, most companies provided information related to ESG risks or opportunities that was specific to the company, though some did not include this type of company-specific information.

The Four Environmental, Social, and Governance (ESG) Disclosure Topics GAO Reviewed with the Most and Least Company-Specific Disclosures, Generally Covering Data from 2018



Source: GAO analysis of company disclosures. | GAO-20-530

Note: GAO reviewed 32 companies' 10-Ks, proxy statements, annual reports, and voluntary sustainability reports (generally with data from 2018, and some with data from 2017 and 2019).

Additionally, differences in methods and measures companies used to disclose quantitative information may make it difficult to compare across companies. For example, companies differed in their reporting of carbon dioxide emissions.

Policy options to improve the quality and usefulness of ESG disclosures range from legislative or regulatory action requiring or encouraging disclosures, to private-sector approaches, such as using industry-developed frameworks. These options pose important trade-offs. For example, while new regulatory requirements could improve comparability across companies, voluntary approaches can provide flexibility to companies and limit potential costs.

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Abbreviations

CDP	Carbon Disclosure Project
Corporation Finance	Division of Corporation Finance
ESG	environmental, social, and governance
ESMA	European Securities and Markets Authority
GRI	Global Reporting Initiative
IIRC	International Integrated Reporting Council
SASB	Sustainability Accounting Standards Board
SEC	Securities and Exchange Commission
TCFD	Task Force on Climate-Related Financial Disclosures

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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July 2, 2020

The Honorable Mark Warner
United States Senate

Dear Senator Warner:

Investors are increasingly asking public companies to disclose information on environmental, social, and governance (ESG) factors to help them understand risks to the company's financial performance or other issues, such as the impact of the company's business on communities. Examples of ESG factors include climate-related impacts, investments in human capital, and the strength of a company's data security program. Some of the largest institutional investors in the United States have announced that they take ESG factors into account to inform their investment decisions and manage investment risks. For example, in a recent letter to clients, executives of BlackRock, Inc., which manages more than $6 trillion in investment assets, stated their view that ESG investment options can offer investors better outcomes.[1] This letter also outlined plans to increase their focus on managing ESG-related risks through how BlackRock constructs investment portfolios, designs investment products, and engages with companies.[2]

The Securities and Exchange Commission (SEC) requires public companies to disclose material information—which can include material

[1]As of June 2019, BlackRock managed a total of $6.84 trillion in assets across equity, fixed income, cash management, alternative investment, real estate, and advisory strategies, according to BlackRock's website.

[2]In 2018, we reviewed 11 studies in peer-reviewed academic journals published from 2012 to 2017 that assessed the impact on financial performance of incorporating ESG factors. Nine of the 11 studies reported finding a neutral or positive relationship between financial returns and the use of ESG information to inform investment management decisions in comparison to otherwise similar investments that did not incorporate ESG information. See GAO, *Retirement Plan Investing: Clearer Information on Consideration of Environmental, Social, and Governance Factors Would Be Helpful,* GAO-18-398 (Washington, D.C.: May 22, 2018).

ESG information—in their annual 10-K filings and other periodic filings.[3] SEC has issued interpretive releases to help explain to companies how current disclosure requirements apply to particular ESG topics, such as climate change. Third-party organizations have created voluntary frameworks for companies to consider to improve the quality and consistency of companies' ESG disclosures. However, some investors and market observers have continued to express dissatisfaction with the quality and consistency of public companies' ESG disclosures.

You asked us to review issues related to public companies' disclosures of ESG information.[4] This report examines (1) why and how investors have sought additional ESG disclosures; (2) how public companies' disclosures of selected ESG factors have compared within and across selected industries; (3) steps SEC staff have taken to assess the effectiveness of the agency's efforts to review the disclosure of material ESG factors; and (4) the advantages and disadvantages of policy options that investors and other market observers have proposed to improve ESG disclosures.[5]

To obtain information about how and why investors have sought additional ESG disclosures, we reviewed relevant reports and studies by academics, investment firms, and others. In addition, we conducted semi-structured interviews with a nongeneralizable sample of 14 institutional investors:

- four large private asset management firms (each with more than $1 trillion in worldwide assets under management as of December 31, 2018);

[3]Material information can include, among other things, known trends, events, and uncertainties that are reasonably likely to have an effect on the company's financial condition or operating performance, as well as potential risks to investing in the company. SEC considers information to be material if there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision in the context of the total mix of available information.

[4]This review was conducted in response to a 2018 request from Senator Mark Warner—then Ranking Member, Senate Subcommittee on Securities, Insurance, and Investment.

[5]For other GAO work on ESG disclosures, see GAO, *Climate Related Risks: SEC Has Taken Steps to Clarify Disclosure Requirements*, GAO-18-188 (Washington, D.C.: Feb. 20, 2018); GAO-18-398; and *Corporate Boards: Strategies to Address Representation of Women Include Federal Disclosure Requirements*, GAO-16-30 (Washington, D.C.: Dec. 3, 2015).

- three mid-sized private asset management firms (each with from $500 billion to $1 trillion in worldwide assets under management as of December 31, 2018);
- three large public pension funds (each with more than $100 billion in total assets as of September 30, 2018); and
- four mid-sized public pension funds (each with from $40 billion to $100 billion in total assets as of September 30, 2018).[6]

To get a mix of regional perspectives, we incorporated geographic location into our selection when possible. For example, we selected at least one of the seven public pension funds from each of four U.S. census regions (Northeast, South, Midwest, and West). To understand trends in the use of shareholder proposals to promote improved ESG disclosure, we obtained and analyzed proposals for a generalizable, random sample of 100 public companies listed on the S&P Composite 1500 as of October 4, 2019.[7]

To compare public companies' ESG disclosures within and across industries, we analyzed disclosures from a nongeneralizable sample of 32 companies across eight industries on eight ESG factors. We selected ESG factors that were frequently cited as important to investors and companies by a range of market observers, including ESG standard-setting organizations and academics. We selected the eight industries because they represented a range of sectors of the U.S. economy (e.g., transportation, services, and manufacturing). By selecting four of the eight largest companies in each industry, we arrived at 32 companies. We reviewed companies' recent regulatory filings (10-K and definitive proxy statement), annual reports, and voluntary corporate social responsibility

[6]In this report, we refer to asset management firms in the private sector as "private" to differentiate them from public pension funds. Our sample of these asset management firms includes firms that are publicly traded.

[7]The S&P Composite 1500 combines three indices—the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600.

reports to identify relevant disclosures on the selected ESG topics.[8] In addition, we conducted semi-structured interviews with representatives from 18 of the 32 companies to obtain their perspectives on their ESG disclosure practices.[9]

To review SEC staff's efforts related to ESG disclosures, we reviewed relevant Division of Corporation Finance (Corporation Finance) procedures. We also interviewed SEC officials and 15 review staff (six attorneys, six accountants, and three branch chiefs) involved in Corporation Finance's oversight of public companies' disclosures. To identify relevant policy proposals to improve ESG disclosures, we reviewed reports and public statements and comments from investors, ESG standard-setting organizations, and other groups. In addition, we reviewed reports and studies on international ESG disclosure requirements to identify and obtain information about relevant policy approaches implemented in other countries. We also interviewed government officials in the United Kingdom and Japan and stock exchange and industry association representatives from South Africa. Finally, we conducted interviews with 13 market observers, including ESG standard-setting organizations, academics, and representatives of industry and investor groups to obtain their perspectives on issues and

[8]We reviewed companies' 2018 10-Ks, 2019 definitive proxy statements (which typically covered the same reporting period as the 2018 10-K), and 2018 annual reports (when different from the company's 10-K). Companies are required to send an annual report to their shareholders or post the report on their websites before an annual meeting to elect directors. Some companies choose to use their 10-K as their annual report and do not provide separate annual reports. We reviewed annual reports that were distinct from companies' 10-Ks. Of our selected companies, 21 published annual reports separate from their 10-Ks. We also reviewed companies' most recent sustainability reports available on their websites, accessed from July through December 2019. The reporting years for these sustainability reports were: 2017 (three companies), 2017–2018 (three companies), 2018 (16 companies), or 2018–2019 (three companies). Seven companies did not have sustainability reports available on their websites. Sustainability reports are sometimes called corporate responsibility reports or ESG reports. SEC's rules and regulations also generally require foreign companies with securities listed in the United States to file an annual form 20-F, which contains financial and nonfinancial information for investors. For the purposes of this report, we did not review form 20-F filings.

[9]We requested interviews with all 32 of our selected companies, but eight companies declined, and six companies did not respond to our request. For those that did not respond, we made at least three requests by email.

policy options related to ESG disclosures.[10] We selected these market observers through studies and reports of companies' ESG disclosures that identified leading observers with subject matter expertise and through referrals obtained during interviews for this study.

We conducted this performance audit from January 2019 to July 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The use of ESG factors has emerged as a way for investors to capture information on potential risks and opportunities that otherwise may not be taken into account in financial analysis. ESG factors like climate change impacts and workplace safety may affect a company's expected financial performance and thereby its value to shareholders. See table 1 for examples of ESG factors.

Table 1: Examples of Environmental, Social, and Governance Factors

Environmental	Social	Governance
Climate change impacts and greenhouse gas emissions	Labor standards	Board composition
Energy efficiency	Human rights	Executive compensation
Renewable energy	Employee engagement	Audit committee structure
Air, water, resource depletion, or pollution	Customer satisfaction	Bribery and corruption
Waste management	Community relations	Whistleblower programs
Biodiversity impacts	Gender and diversity	Accident and safety management

Source: GAO analysis of documentation from the CFA Institute, Sustainable Accounting Standards Board, and Principles for Responsible Investment. | GAO-20-530

[10]To characterize investor, company, SEC review staff, and market observer views throughout the report, we consistently defined modifiers to quantify the views of each group as follows: "nearly all" represents 80–99 percent of the group, "most" represents 50–79 percent of the group, and "some" represents 20–49 percent of the group. The number of interviews each modifier represents differs based on the number of interviews in that grouping: 14 institutional investors, 18 public companies, 15 SEC review staff, and 13 market observers.

ESG standard-setting organizations were created to improve transparency and consistency in companies' disclosure of ESG information. Several independent and nonprofit organizations have created voluntary frameworks companies may use to disclose on ESG issues, as shown in table 2. Frameworks are generally comprised of single-issue categories that contain several specific disclosure topics related to that category.

Table 2: Environmental, Social, and Governance (ESG) Standard-Setting Organizations and Voluntary Reporting Frameworks

ESG standard-setting organization	Description of voluntary reporting framework
Global Reporting Initiative (GRI)	GRI is an international nonprofit organization that was established in 1997. GRI created the first international guidelines for sustainability reporting in 2000, then replaced these guidelines with sustainability reporting standards in 2016. According to GRI, 82 percent of the world's 250 largest companies report on ESG topics using the GRI standards. Companies determine which, if any, of their business operations may have a relevant impact and select GRI sustainability reporting standards accordingly.
United Nations Global Compact	The United Nations Global Compact was established in 2000. Participating companies are encouraged to incorporate the compact's 10 principles on human rights, labor, the environment, and anti-corruption into their operations. In 2017, the compact partnered with GRI to produce a guide that uses GRI's standards to help companies disclose how they act on the compact's 10 principles.
International Integrated Reporting Council (IIRC)	IIRC is an international nonprofit organization that was established in 2010, which encourages companies to merge their financial and sustainability disclosures using a process called integrated reporting. IIRC's integrated reporting framework provides companies with guidance on the principles and content of integrated reports, but it does not provide standards for ESG disclosures.
Sustainability Accounting Standards Board (SASB)	SASB is a U.S. nonprofit organization that was established in 2011. In 2018, SASB developed a voluntary reporting framework in consultation with companies, investors, and subject matter experts. The framework is comprised of industry-specific sustainability accounting standards for 77 industries intended to allow companies to communicate ESG information that could have a financial impact on the company.
Additional climate change-related frameworks: CDP Global (previously the Carbon Disclosure Project)	CDP is an international nonprofit organization that was established in 2000. CDP scores organizations on environmental risks and opportunities related to climate change, water security, and deforestation. CDP gathers information to generate its scores and reports by sending questionnaires to participating investors and companies as well as public entities, including cities, states, and regions.
Additional climate change-related frameworks: Task Force on Climate-Related Financial Disclosures (TCFD)	TCFD was established by the Financial Stability Board in 2015 to make recommendations for improving principles and practices for voluntary climate change disclosure. In 2017, TCFD released a climate-related risk disclosure framework. This framework is intended to help companies consider and report on risks associated with climate change, such as physical, liability, and transition risks that could have a financial impact on a company in the future.

Source: GAO analysis of standard-setting framework documents. | GAO-20-530

SEC rules and regulations generally require public companies to disclose, among other things, known trends, events, and uncertainties that are reasonably likely to have a material effect on the company's financial condition or operating performance, as well as potential risks to investing

in the company. SEC considers information to be material if there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision in the context of the total mix of available information.[11] Public companies disclose information on an ongoing basis through annual 10-K filings, quarterly 10-Q filings, and definitive proxy statements, among other disclosure requirements.[12] Regulation S-K contains SEC integrated disclosure requirements for 10-K filings and other periodic reports filed with SEC.[13] Staff in Corporation Finance are to selectively review 10-K filings for compliance with requirements outlined in Regulation S-K and other applicable accounting standards and form requirements. While federal securities laws generally do not specifically address the disclosure of ESG information, Regulation S-K's disclosure requirements for nonfinancial information apply to material ESG topics. Regulation S-K also includes prescriptive requirements for disclosure of certain topics considered to be ESG topics, such as board composition, executive compensation, and audit committee structure.[14]

Corporation Finance's legal and accounting staff review filings through seven offices organized by industry, and office managers assign different levels of reviews to 10-K filings, such as full reviews (which include financial and legal reviews) and financial-only reviews. The Sarbanes-Oxley Act of 2002 requires SEC to review the financial statements of each reporting company at least once every 3 years, which informs,

[11]*See* 17 C.F.R. §§ 240.12b-2, 230.405; *see also Basic Inc. v. Levinson*, 485 U.S. 224, 231-32 (1988) (quoting *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 449 (1976)) ("[T]o fulfill the materiality requirement 'there must be a substantial likelihood that the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available.'"). For the purposes of this report, we use "companies," to refer to public companies subject to the registration and reporting requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934.

[12]Definitive proxy statements are the final version of proxy statements that public companies are required to file with SEC and provide to shareholders prior to certain shareholder meetings.

[13]*See* Regulation S-K, 17 C.F.R. Pt. 229.

[14]SEC also has proposed amendments to modernize Regulation S-K, including refocusing the disclosure of human capital resources to include any material information on human capital measures or objectives on which the company focuses in managing the business. *See* Modernization of Regulation S-K Items 101, 103, and 105, 84 Fed. Reg. 44,358 (proposed Aug. 23, 2019). Current human capital disclosure rules require companies to report on their number of employees, and these changes aim to provide investors with a better understanding of how companies manage human capital resources.

among other factors, how Corporation Finance selects and determines the extent to which 10-K filings are reviewed.[15] In conducting these reviews, Corporation Finance staff may provide comments to a company to obtain additional information, clarification on the company's disclosure, or to significantly enhance its compliance with applicable reporting requirements. Comments depend on the issues that arise in a particular filing, and staff may request that a company provide additional information to help them better evaluate disclosures.

SEC occasionally issues interpretive releases on topics of general interest to the business and investment communities, which reflect the Commission's views and interpret federal securities laws and SEC regulations. For example, in 2010, SEC issued the Commission Guidance Regarding Disclosure Related to Climate Change, which described how existing disclosure requirements could apply to climate change-related information and how companies may consider climate disclosures in required filings.[16] In 2018, SEC also issued the Commission Statement and Guidance on Public Company Cybersecurity Disclosures, outlining how existing reporting requirements could apply to cybersecurity-related risks and incidents.[17] These interpretive releases do not establish new reporting requirements. Instead, they identify items in existing laws and regulations that may be most likely to require disclosure on these topics, such as description of the company's business and potential risk factors that may affect the company.

[15]Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, §408, 116 Stat. 745, 790-91 (2002) (codified at 15 U.S.C. § 7266).

[16]Commission Guidance Regarding Disclosure Related to Climate Change, 75 Fed. Reg. 6290 (Feb. 8, 2010).

[17]Commission Statement and Guidance on Public Company Cybersecurity Disclosures, 83 Fed. Reg. 8166 (Feb. 26, 2018).

Most Large Investors Told Us They Sought Additional ESG Disclosures to Better Understand and Compare Companies' Risks

Most Investors Said They Engage with Companies to Address Gaps or Inconsistencies in ESG Disclosures That Limit Their Usefulness

Institutional investors with whom we spoke generally agreed that ESG issues can have a substantial effect on a company's long-term financial performance.[18] All seven private asset managers and representatives at five of seven public pension funds said they seek ESG information to enhance their understanding of risks that could affect companies' value over time. Representatives at the other two pension funds said that they generally do not consider ESG information relevant to assessing companies' financial performance. While investors with whom we spoke primarily used ESG information to assess companies' long-term value, other investors also use ESG information to promote social goals. A 2018 US SIF survey found that private asset managers and other investors, representing over $3.1 trillion (of the $46.6 trillion in total U.S. assets under professional management), said they consider ESG issues as part of their mission or in order to produce benefits for society.[19]

[18]Institutional investors include public and private entities that pool funds on behalf of others and invest the funds in securities and other investment assets. We interviewed 14 institutional investors: four large private-sector asset management firms (each with more than $1 trillion in worldwide assets under management), three private-sector mid-sized asset management firms (each with from $500 billion to $1 trillion in worldwide assets under management), three large public pension funds (each with more than $100 billion in total assets), and four mid-sized public pension funds (each with from $40 billion to $100 billion in total assets). Other types of institutional investors include private or nonprofit organizations such as labor organizations, foundations, and faith-based investors.

[19]US SIF: The Forum for Sustainable and Responsible Investment, *Report on US Sustainable, Responsible and Impact Investing Trends* (2018). US SIF is a nonprofit organization that promotes sustainable investment practices by encouraging members to focus on long-term investment and ensure that ESG impacts are meaningfully assessed in all investment decisions. US SIF members include private asset management firms, asset owners, and private and nonprofit investing organizations.

Institutional investors we interviewed identified various ways they use ESG disclosures to inform their investment decisions and manage risks related to their investments.

- **Protecting long-term investments by monitoring companies' management of ESG risks.** Some investors with whom we spoke noted that they primarily make long-term investments in passively managed funds, which may prevent them from making investment decisions based on ESG information.[20] However, 10 of 14 investors said that their focus on long-term factors that drive value leads them to monitor or influence companies' management of ESG issues to protect their investments. Investors generally said they use ESG disclosures to determine which ESG issues companies monitor and to assess how companies manage these risks. Nearly all investors said ESG issues can be important to a company's operations and performance over time. For example, seven of 14 investors said they used ESG disclosures to identify companies that were less transparent than their peers or appeared to be outliers in their industries, such as having less board diversity than their peers. Investors then engaged with these companies to discuss their risk-management strategies, encourage disclosure on ESG issues, or provide information about what kind of disclosure they would find useful.
- **Informing shareholder votes.** Most investors with whom we spoke said they use ESG information to inform their votes as shareholders at annual shareholder meetings, either through a proxy advisory firm or independently.[21] Specifically, nine of 14 investors said that ESG information informs how they vote on directors' nominations to the board and other proposals at public companies' annual meetings. For example, representatives from two large public pension funds said they withhold votes for directors if they determine that a company's board had not

[20]For example, an investment firm may employ a passive investment strategy by managing the selection and allocation of investments in a particular fund with the goal of matching the returns of a benchmark index, such as the S&P 500. In contrast, an active investment strategy involves choosing investments with the goal of generating returns that outperform a benchmark index.

[21]Shareholders of publicly traded companies generally vote annually on issues that could affect the companies' value, such as the election of directors, executive compensation packages, and proposed mergers and acquisitions. The shareholders receive advance notice of the votes through a definitive proxy statement and may vote in person or choose a third party (proxy) to cast their vote. Most proxy votes are cast by or on behalf of institutional investors, such as mutual funds and pension funds, because of the level of stocks they manage relative to other types of investors.

effectively disclosed issues, such as climate risk or executive performance metrics.[22]

- **Creating ESG funds or portfolios.** Five of 14 investors we interviewed said they created ESG-focused investment funds or portfolios with goals such as promoting social responsibility and environmental sustainability. In creating these funds and portfolios, investors generally review companies' ESG disclosures to determine which companies to include or exclude from these funds or portfolios. For example, two private asset managers said they created ESG funds or portfolios to attract investors focused on social goals, such as faith-based investors, while representatives from one pension fund said they had worked with an asset manager to create a low-emissions index intended to support the Paris Agreement's goals.[23]
- **Divesting.** Some investors we interviewed said they typically would not divest based on a company's ESG disclosures, and three said that ESG information could lead them to divest. A mid-size asset manager noted that the firm works with companies to improve their disclosures rather than divest. Conversely, representatives from one mid-size pension fund said they found that buying or selling shares is a more efficient method for changing corporate behavior than the lengthier strategy of engaging companies in dialogue. Additionally, a large asset manager said that its portfolio managers sell shares if a company's ESG performance or response to engagement is poor.

Although some studies report that the quantity and quality of ESG disclosures generally improved in the last few years, 11 of 14 investors with whom we spoke said they seek additional ESG disclosures from

[22]When directors run unopposed, shareholders have the option to withhold their vote in favor of the candidate. According to SEC's Office of Investor Education and Advocacy, while a substantial number of "withhold" votes will not prevent an unopposed candidate from being elected, it can indicate shareholder dissatisfaction with the candidate and sometimes influence future decisions on director nominees by the board of directors.

[23]The Paris Agreement is an agreement reached by parties to the United Nations Framework Convention on Climate Change to strengthen the global response to the threat of climate change that entered into force in 2016.

companies to address gaps and inconsistencies, among other issues.[24] Investors described challenges with understanding and interpreting both quantitative and narrative disclosures.

- **Quantitative disclosures.** Investors cited examples of inconsistencies in companies' quantitative disclosures that limit comparability, including comparability among companies that disclose on the same ESG topics. Specifically, investors described challenges such as the variety of different metrics that companies used to report on the same topics, unclear calculations, or changing methods for calculating a metric. For example, five of 14 investors said that companies' disclosures on environmental or social issues use a variety of metrics to describe the same topic. A few studies have reported that the lack of consistent and comparable metric standards have hindered companies' ability to effectively report on ESG topics, because they are unsure what information investors want.[25] In addition, some investors said that companies may change which metrics they use to disclose on an ESG topic from one year to the next, making disclosures hard to compare within the same company over time.
- **Narrative disclosures.** Most investors noted gaps in narrative disclosures that limited their ability to understand companies' strategies for considering ESG risks and opportunities. For example, some investors noted that some narrative disclosures contained generic language, were not specific to how the company addressed ESG issues, or were not focused on material information. For example, two private asset managers said that companies may provide boilerplate narratives or insufficient context for their quantitative disclosures, and representatives from one pension fund said that the fund would like additional disclosures on cybersecurity but has found that most disclosures on this topic are generic and not very helpful.

[24]International Monetary Fund, *Global Financial Stability Report: Lower for Longer* (October 2019); Council of Institutional Investors Research and Education Fund, *Board Evaluation Disclosure* (January 2019); Investor Responsibility Research Center Institute and Sustainable Investments Institute, *State of Integrated and Sustainability Reporting 2018* (2018); Sustainable Accounting Standards Board, *The State of Disclosure 2017: An Analysis of the Effectiveness of Sustainability Disclosure in SEC Filings* (December 2017); and KPMG, *Survey of Corporate Responsibility Reporting 2017* (October 2017).

[25]World Economic Forum, *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation* (January 2020); International Monetary Fund, *Global Financial Stability Report: Lower for Longer* (October 2019); and U. S. Chamber of Commerce Foundation and the Chamber's Center for Capital Markets Competitiveness, *Corporate Sustainability Reporting: Past, Present, Future* (November 2018).

Additionally, most institutional investors said that there is fragmentation in the format or location of companies' ESG disclosures, which can make this information hard to compile and review. However, these investors generally said that it is more important for companies to focus on providing disclosures than on how or where the disclosures are presented. These investors said that they are able to purchase access to compiled data from third-party data providers to use in their analysis of companies' ESG disclosures.

Regarding how investors seek ESG disclosures, nearly all institutional investors with whom we spoke said they engage with companies to request additional ESG disclosures through meetings, telephone calls, or letters. Some investors said that companies' responsiveness, which can include producing ESG presentations for investors and discussing ESG information on earnings calls, varied by size because larger companies have more resources to respond to investor engagement. Engagement also can be complicated by conflicting investor demands, as well as the proliferation of standards and surveys. According to representatives from an industry group that we interviewed, the large number of demands for specific ESG information from investors and third parties can pose a challenge to companies as they prioritize how to respond. For example, one company said it receives diverse requests for information that indicate that those investors do not agree on what issues are most important.

To a Limited Degree, Some Investors Seek ESG Disclosures through Shareholder Proposals

Some investors seek additional ESG disclosures by submitting shareholder proposals, which are requests from shareholders that the company take action on a specific issue or issues. These proposals are generally presented for a shareholder vote at public companies' annual

meetings.[26] However, shareholder proposals can be withdrawn before coming to a vote when the company reaches an agreement with the shareholder who submitted the proposal prior to the annual meeting.

Our analysis of a generalizable sample of companies listed on the S&P 1500 found that in 2019, an estimated 10 percent of companies received one or more shareholder proposals and an estimated 5 percent of companies received one or more shareholder proposals related to increasing ESG disclosures.[27] For the ESG-related proposals in our sample, on average about 28 percent of shareholders voted in favor of these proposals and no proposals received more than 50 percent of the vote.[28] As shown in table 3, the companies in our sample received a total of six proposals requesting additional ESG disclosures on a variety of social and governance topics. Most of these proposals were submitted to large companies.[29] Investors that submitted proposals included one public

[26]According to SEC, under state law shareholders generally have the right to appear in person at an annual or special meeting and put forth a resolution to be voted on by the shareholders. *See* Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8, 84 Fed. Reg. 66,458, 66,474 (proposed Dec. 4, 2019). U.S. public companies generally hold their annual meetings to consider key management and shareholder proposals that may have an effect on a company's operations and value, such as executive compensation and director elections, or other more routine issues that may not affect value, such as changing a corporate name or approving an auditor. Under SEC rules, shareholders who have held at least $2,000 or 1 percent of a company's stock for 1 year can submit proposals for a vote. SEC has proposed an update to this threshold and suggested that higher ownership requirements or longer holding periods would demonstrate a shareholder's economic stake or long-term investment interest in the company. *See id.*

[27]All estimates from our review of a sample of companies' shareholder proposals are subject to sampling error. These estimates have a 95 percent confidence interval that extends from 6 to 17 percent for companies receiving one or more shareholder proposals and from 2 to 11 percent for companies receiving one or more shareholder proposals related to increasing ESG disclosures. We only reviewed shareholder proposals that were included in companies' 2019 shareholder meeting materials.

[28]Voting requirements vary among U.S. public companies. Companies' bylaws generally determine how shareholder votes are counted and requirements differ based on the type of proposal being voted, the proportion of votes required for an item to pass, and which votes are factored into the voting outcome. For example, some U.S. public companies count abstentions as votes cast against certain nonbinding items, such as votes on executive compensation and shareholder proposals, while others count only votes cast for and against the item. Some companies require items to receive more than 50 percent of the vote to be considered as having passed.

[29]For our sample, we refer to companies appearing in the S&P 500 as large, companies in the S&P MidCap 400 as mid-sized, and companies in the S&P SmallCap 600 as small.

pension fund, one labor organization, three socially focused asset managers, and one higher education endowment.

Table 3: Shareholder Proposals Submitted to 100 Sampled Companies Requesting Additional Environmental, Social, and Governance (ESG) Disclosures, 2019

Company size	ESG topic and classification	Additional ESG disclosure requested	Type of investor	Percentage votes in favor[a]
Large	Political spending (Governance)	Report corporate spending on political activities	Pension fund	34.4
Large	Personnel management (Social)	Report on the potential impacts of mandatory arbitration for employees' sexual harassment claims	Labor union	34.0
Large	Human rights (Social)	Report on the risk of child exploitation occurring via the company's products and services	Faith-based asset manager	33.0
Large	Executive compensation (Governance)	Report on the feasibility of linking executive compensation to performance around cybersecurity and data privacy	ESG investment fund	12.2
Mid-sized	Board diversity (Governance)	Report on steps to enhance board diversity	ESG investment fund	26.6
Mid-sized	Supply chain management (Social)	Report on steps to increase supply chain transparency	Higher education endowment	No vote[b]
Average	na	na	na	28.0

Source: GAO review of shareholder proposals. | GAO-20-530

[a]The percentage of votes in favor was calculated using the number of votes shareholders cast in favor of the proposal divided by the sum of votes cast in favor, against, and abstain.

[b]The company's 8-K filing that included the Submission of Matters to a Vote of Security Holders did not record a vote on this shareholder proposal. There are several possible reasons for not voting on a proposal, such as the proponent did not present the proposal at the annual meeting or withdrew the proposal before the meeting.

Notes: In this table, we refer to companies appearing in the S&P 500 as large, companies in the S&P MidCap 400 as mid-sized, and companies in the S&P SmallCap 600 as small. Each of the proposals in the table (1) was submitted to a company in our generalizable sample, (2) contained a request for an additional ESG disclosure, and (3) was included in the company's 2019 annual shareholder meeting materials. No small companies in our sample received a shareholder proposal requesting additional ESG disclosure in 2019.

All of the private asset management firms and representatives from three of seven pension funds we interviewed said they do not use shareholder proposals as a means to influence companies' ESG disclosures. One of these pension funds said they have found filing shareholder proposals unnecessary after engaging in dialogue with companies. However, representatives from four of seven pension funds said they have filed shareholder proposals to seek additional ESG disclosures. Two large pension funds said they have found filing shareholder proposals an important engagement method for getting companies' attention on ESG

issues, while the other two funds noted that it was rare for them to file a proposal.

Similarly, studies and reports we reviewed indicated that shareholder proposals are concentrated among a relatively small number of shareholders and that the number of proposals has been declining in the last 5 years.[30] For example, a law firm's analysis of shareholder proposals filed with companies listed on the S&P 1500 in 2019 reported that 10 investors submitted over half of all proposals.[31] This report also found that faith-based investors and socially focused asset managers, who seek to advance social causes in their investments, submitted the majority of environmental and social proposals in both 2018 and 2019. In addition, this analysis showed that the total number of shareholder proposals, including withdrawn proposals, submitted annually declined each year from 2015 to 2019. As the total number of proposals has declined, shareholder proposals related to environmental and social issues constituted over 45 percent of proposals each year from 2015 to 2019.[32] While studies found that during this same time period shareholder support increased for these environmental and social proposals that went to a vote, shareholder support for most of them remained below 30 percent.[33]

[30]These studies include shareholder proposals that were included in the shareholder meeting materials and those that were withdrawn before being included. Some shareholder proposals are submitted by investors representing larger groups of investors, which submit proposals through individual members.

[31]Sullivan and Cromwell, LLP, *2019 Proxy Season Review, Part I: Rule 14a-8 Shareholder Proposals* (July 2019). The law firm Sullivan and Cromwell advises U.S. public companies on corporate governance issues, including the shareholder proposal process. The firm's analysis relied on data from Institutional Shareholder Services, Inc. that was current as of June 30, 2019. Sullivan and Cromwell estimates that 90 percent of U.S. public companies' annual shareholder meetings are held before June 30 each year.

[32]Sustainability Accounting Standards Board, *2015 Annual Report* (June 2016); Sullivan and Cromwell, LLP, *2018 Proxy Season Review* (July 2018); and Sullivan and Cromwell, LLP, *2019 Proxy Season Review, Part I: Rule 14a-8 Shareholder Proposals* (July 2019).

[33]US SIF: The Forum for Sustainable and Responsible Investment, *Report on US Sustainable, Responsible and Impact Investing Trends* (2018); Sullivan and Cromwell, LLP, *2018 Proxy Season Review* (July 2018); and Sullivan and Cromwell, LLP, *2019 Proxy Season Review, Part I: Rule 14a-8 Shareholder Proposals*, (July 2019).

Selected Companies Generally Disclosed Many ESG Topics but Lack of Detail and Consistency May Reduce Usefulness to Investors

Companies Considered Stakeholder Input and Regulatory Requirements in Disclosing on ESG Topics

Representatives from public companies with whom we spoke said they use several methods and consider multiple factors when deciding which ESG topics to report. Most companies (10 of 18) noted that legal and regulatory requirements were their primary consideration when determining which ESG factors to disclose.[34] In addition, nearly all companies (15 of 18) told us they conduct some form of stakeholder engagement when determining what ESG information beyond regulatory requirements to report. As part of the engagement process, companies generally said they reach out to investors, representatives of communities they operate in, and other interested stakeholders to solicit their opinions about which ESG factors are important to them. Some companies described their ESG stakeholder engagement process as part of their broader company-wide outreach efforts, while others told us they hired outside firms to conduct this engagement on their behalf.

In addition to stakeholder outreach, most companies (11 of 18) told us they perform assessments to determine which ESG topics to include in their regulatory filings or other reports. As part of these assessments, companies review a wide array of potential risks and identify the ones that would have the most impact on their business. In addition to requirements, outreach and assessments, most companies (nine of 18) told us they review ESG disclosure frameworks, such as GRI and SASB, to inform their consideration of which ESG factors to disclose.

Similar to deciding which ESG topics to disclose, most companies (10 of 18) told us they also rely on legal and regulatory requirements when determining where to disclose ESG information. Specifically, companies

[34]As mentioned previously, SEC rules and regulations require public companies to disclose material information, including material ESG information, in their annual 10-K filings and other periodic reports filed with SEC. Similarly, SEC requires companies to provide certain governance information in their proxy statements in advance of shareholder meetings where shareholders elect members of the company's board of directors.

said they identify those ESG factors that should be included in the 10-K or proxy statement according to SEC requirements, and publish information on these factors in their regulatory filings. In addition, some companies (six of 18) told us that they view their voluntary sustainability report as complementary to their regulatory filings. Specifically, four companies said they view their sustainability reports as a place to publish relevant ESG information that may not necessarily be material under the SEC definition and is therefore not included in regulatory filings. Lastly, some companies also told us that their voluntary sustainability reports provide an opportunity to disclose information that is of interest to ESG-focused investors or non-investor stakeholders. For example, some companies (five of 18) told us they use these reports to reach a broader stakeholder audience beyond investors, including employees and customers, when writing their sustainability reports.

In addition to the regulatory and voluntary reporting that we reviewed, representatives from all 18 companies said they communicate ESG information in other ways. For example, most companies (13 of 18) said they also publish issue-specific ESG reports, most commonly on climate change.[35] Most companies (12 of 18) also said they include ESG information on their company websites, because information could be updated more frequently and include more dynamic content, such as videos. Finally, most companies (11 of 18) told us they have developed ESG-focused presentations for investors, and some companies (four of 18) said they have begun including ESG information in their traditional investor communications, such as quarterly earnings calls and stockholder bulletins.

Most Companies Disclosed on Many ESG Topics, but Detail Varied on How ESG-Related Risks Are Managed

To assess the amount and characteristics of the ESG information companies report, we reviewed regulatory filings and voluntary reports

[35]Most companies said they submitted responses to an annual questionnaire from CDP, and other companies said they have issued their own stand-alone climate change reports. Other companies said they published issue-specific reports on ESG topics directly relevant to their industry. For example, a utility company told us it produces a report that details information related to its methane emissions, while a retailer that sells food said it has published reports with information on the use of palm oil in its supply chain.

issued by 32 large and mid-size public companies in eight industries.[36] For each company, we reviewed two types of regulatory filings (10-K and the definitive proxy statement), annual reports (when distinct from the 10-K), and voluntary sustainability reports (where available). Of our selected companies, 25 published voluntary sustainability reports and 21 published annual reports separate from their 10-Ks.[37] Using keyword search terms, we searched these documents to identify disclosures related to eight broad ESG factors and 33 more-specific disclosure topics under these factors (see fig. 1).[38] We selected ESG factors from among those that a range of market observers frequently cited as important to investors or potentially material and selected ESG topics by reviewing ESG disclosure frameworks. For more information about this methodology, see appendix I.

[36]These industries were airlines, beverages, biotechnology and pharmaceuticals, commercial banks, consumer retail, electric utilities, internet media and services, and oil and gas production.

[37]We defined a sustainability report as a stand-alone comprehensive document that provided information on a range of environmental, social, and governance issues relevant to the company. We did not include single-issue documents or information included on websites that was not also part of the sustainability report. Sustainability reports are sometimes called corporate responsibility reports or ESG reports. We reviewed annual reports that were distinct from companies' 10-Ks. Companies report ESG information through means other than these four types of documents, such as through their website or issue-specific company reports.

[38]Of our 33 more-specific disclosure topics, 16 were narrative disclosures and 17 were quantitative metrics. We identified ESG disclosures by searching for keywords specific to each factor. The search terms we used were not intended to represent a comprehensive list of keywords that may relate to the ESG factors we selected for review. Therefore, the disclosures we identified are not intended to be a comprehensive list of companies' ESG disclosures on our selected topics.

Figure 1: Selected Environmental, Social, and Governance (ESG) Factors and Topics for Our Review of Public Companies' ESG Disclosures

ESG category	ESG factor	Narrative ESG topics	Quantitative ESG topics
Environmental	*Climate change*	• Climate-related risks and opportunities the company has identified • How the company manages climate-related risks and opportunities	• Direct greenhouse gas emissions (Scope 1)[a] • Indirect greenhouse gas emissions (Scope 2)[a] • Value chain greenhouse gas emissions (Scope 3)[a] • Reductions in greenhouse gas emissions
	Resource management[b]	• Risks and opportunities the company has identified related to energy or water resource management • How the company manages risks and opportunities related to energy or water resource management	• Total energy consumption or water withdrawal • Energy consumption reduced or water withdrawal from areas with water stress
Social	*Human rights*	• Identification of company operations that might endanger human rights • Company actions to protect human rights	• Number of human rights infringements identified by the company • Number of human rights reviews of operations performed by the company
	Personnel management	• Obstacles that might limit the company's ability to hire the talent it needs • How the company recruits and retains personnel	• Percentage of employees leaving the company either voluntarily or involuntarily • Breakdown of employees by full- and part-time • Percentage of employees represented by a collective bargaining agreement
	Workforce diversity	• Company actions to promote diversity and inclusion • Company actions to prevent and address discrimination	• Percentage of employees by gender • Percentage of employees by race, ethnicity, or other demographic indicators • Percentage of board members by race, ethnicity, or gender
Governance	*Board accountability*	• Company actions to incorporate shareholder preferences in board nominations • Company actions to avoid conflicts of interest among board members • Company actions to add new directors to the board	• Number of independent board members[c]
	Data security	• How the company identifies and addresses data security risks • How the company uses and protects consumer data	• Number of data security incidents
	Occupational health and safety	• How the company manages occupational health and safety risks	• Hours of health and safety training for employees

Source: GAO analysis. | GAO-20-530

[a]Scope 1 emissions are direct emissions from sources that are owned or controlled by the company, such as emissions from on-site fossil fuel combustion, company vehicles, and wastewater treatment. Scope 2 emissions are indirect emissions from purchased electricity. Scope 3 emissions are indirect emissions from sources not owned or directly controlled by the company but that are related to the company's activities, such as employee travel and commuting.

[b]Our review of resource management disclosure covered energy management topics for companies in the airline, commercial banking, consumer retail, and internet media and services industries, and

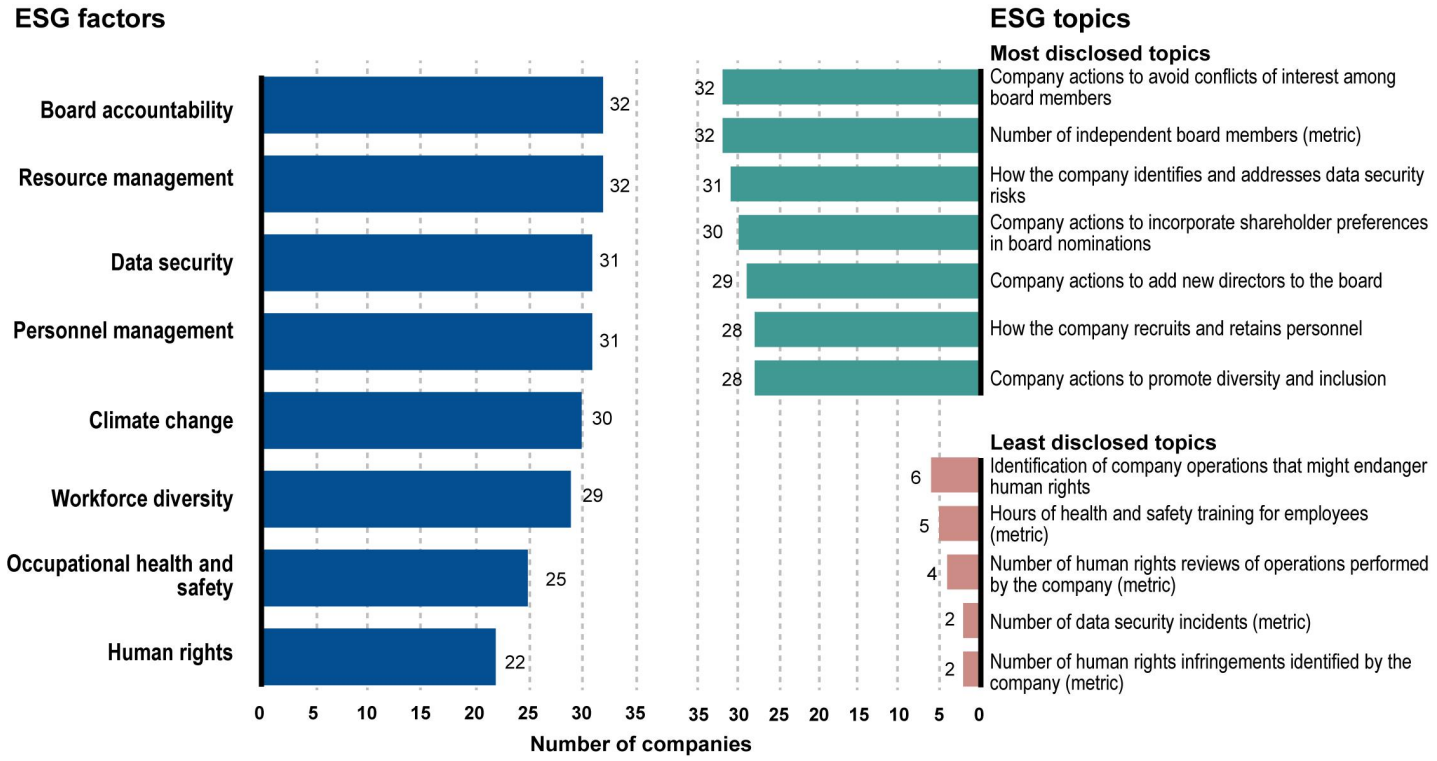
covered water management topics for companies in the beverage, biotechnology and pharmaceuticals, electric utilities, and oil and gas production industries.

[c]An independent board member is generally a person who is not an executive officer or other employee of the company. For the purposes of our analysis, we used the definition of independent board member provided in the filing or report we were reviewing.

As shown in figure 2, we identified disclosures on six or more of the eight ESG factors for 30 of the 32 companies in our sample and identified 19 companies that disclosed information on all eight factors. All selected companies disclosed at least some information on factors related to board accountability and resource management. In contrast, we identified the fewest companies disclosing on human rights and occupational health and safety factors.

With regard to the 33 more-specific ESG topic disclosures we examined, 23 of 32 companies disclosed on more than half of them. The topics companies disclosed most frequently were related to governance of the board of directors and addressing data security risks. Conversely, based on disclosures we identified, we found that companies less frequently reported information on topics related to the number of self-identified human rights violations and the number of data security incidents. In addition, we found that companies most frequently disclosed information on narrative topics and less frequently disclosed information on quantitative topics. There are several reasons why a company may not have disclosed information on a specific ESG topic, including that the topic is not relevant to its business operations or material.

Figure 2: Number of Companies for Which Our Review Identified Disclosure on Certain Environmental, Social, and Governance (ESG) Factors and Topics, Generally Covering Data from 2018



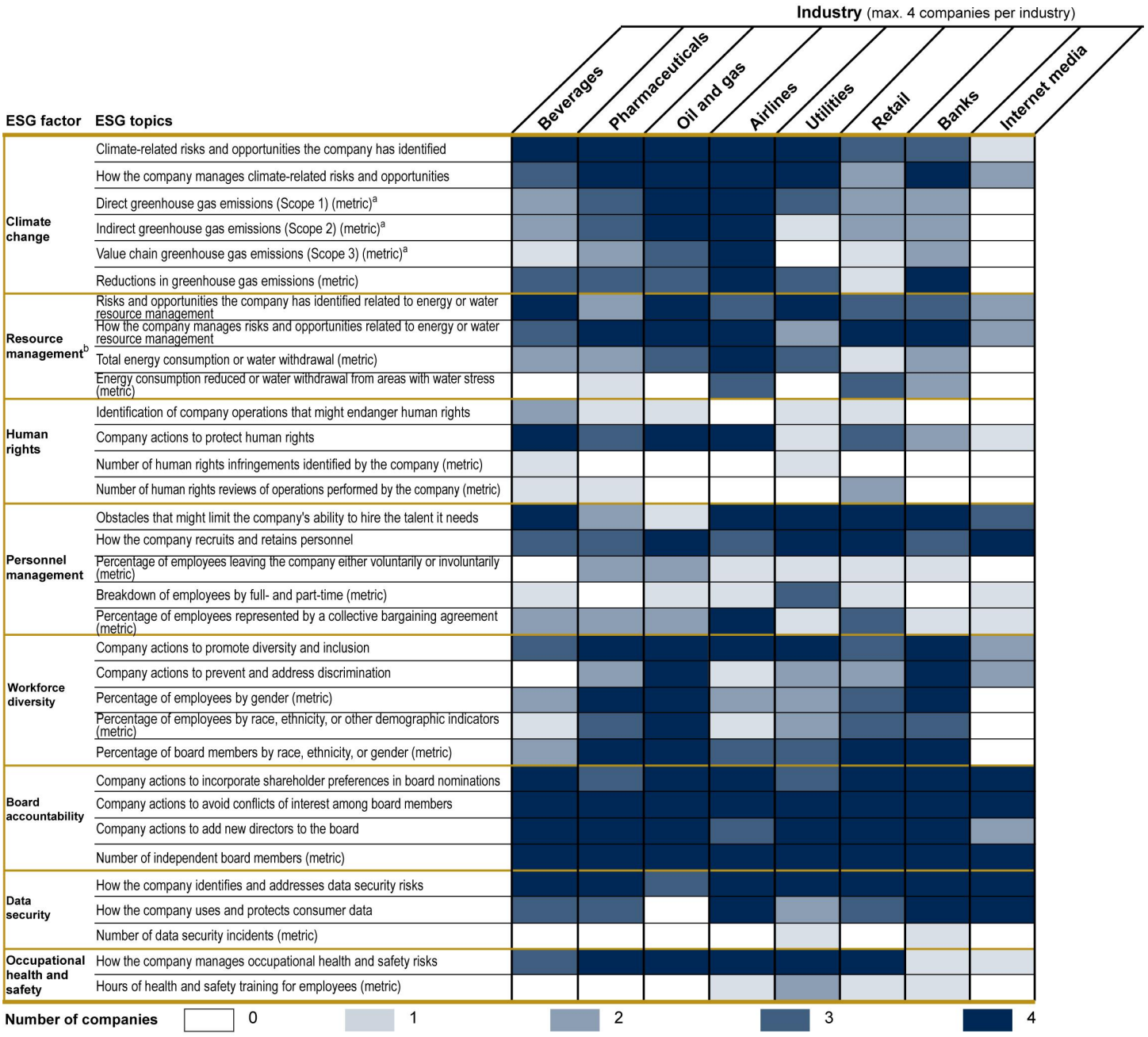
Source: GAO analysis of company disclosures. | GAO-20-530

Notes: We reviewed 32 selected companies' 2018 10-Ks, 2019 definitive proxy statements (which typically covered the same reporting period as the 2018 10-K), and 2018 annual reports (when different from the 10-K). We also reviewed companies' most recent sustainability reports available on their websites, accessed from July through December 2019. These documents generally contained data from 2018, but some contained data from 2017 and 2019. Companies can report ESG information through means other than these four documents, such as through their websites or issue-specific company reports. There are several reasons why a company may not disclose information on a specific ESG topic, including that the topic is not relevant to its business operations or material.

Figure 3 compares the amount of disclosure on the 33 ESG topics within and across the selected industries. We identified the most disclosure on the group of topics related to board accountability, climate change, and workforce diversity and the least amount on topics related to human rights. SEC requires companies to report certain governance information in their proxy statements in advance of shareholder meetings where shareholders elect members of the company's board of directors, which may help explain why board accountability topics are the most reported across industries in our sample. Additionally, differences in disclosure can result, in part, from the relevance of an ESG topic to a particular industry. For example, more companies in the airline and oil and gas industries

disclosed information on climate change, while more companies in the internet media and banking industries disclosed information on data security. We identified disclosures on fewer topics by companies in the internet media industry than the other industries we assessed. None of the four internet media companies in our sample issued a stand-alone sustainability report. As discussed below, most companies tended to include more extensive ESG disclosures in their sustainability reports than in their regulatory filings.

Figure 3: Number of Companies for Which Our Review Identified Disclosure on Certain Environmental, Social, and Governance (ESG) Topics by Industry, Generally Covering Data from 2018



Source: GAO analysis of company disclosures. | GAO-20-530

[a]Scope 1 emissions are direct emissions from sources that are owned or controlled by the company, such as emissions from on-site fossil fuel combustion, company vehicles, and wastewater treatment.

Scope 2 emissions are indirect emissions from purchased electricity. Scope 3 emissions are indirect emissions from sources not owned or directly controlled by the company but that are related to the company's activities, such as employee travel and commuting.

[b]Our review of resource management information covered energy management topics for companies in the airline, commercial banking, consumer retail, and internet media and services industries, and covered water management topics for companies in the beverage, biotechnology and pharmaceuticals, electric utilities, and oil and gas production industries.

Notes: We reviewed 32 selected companies' 2018 10-Ks, 2019 definitive proxy statements (which typically covered the same reporting period as the 2018 10-K), and 2018 annual reports (when different from the 10-K). We also reviewed companies' most recent sustainability reports available on their websites, accessed from July through December 2019. These documents generally contained data from 2018, but some contained data from 2017 and 2019. Companies can report ESG information through means other than these four types of documents, such as through their websites or issue-specific company reports. There are several reasons why a company may not disclose information on a specific ESG topic, including that the topic is not relevant to its business operations or material.

Figure 4 illustrates how the amount of disclosures on the 33 ESG topics compared across the four types of documents we reviewed. We found that companies generally reported information on a wider variety of ESG topics in their voluntary sustainability reports. Specifically, with the exception of a few topics, when companies disclosed information on an ESG topic, they most frequently did so in their sustainability reports. Certain ESG topics were reported more frequently in regulatory filings. For example, nearly all selected companies reported ESG information related to their board of directors in their proxy statements. Additionally, we found that companies disclosed on risks related to climate change, data security, hiring employees, and resource management in their 10-Ks, which includes a risk factors section where companies are required to discuss the most significant factors that make investment in the company speculative or risky.

Figure 4: Number of Companies for Which Our Review Identified Disclosure on Certain Environmental, Social, and Governance (ESG) Topics by Document, Generally Covering Data from 2018

ESG factor	ESG topics	2018 Form 10-K (32 max. companies)	2019 proxy statement (32 max. companies)	2018 annual report (21 max. companies)	Recent sustainability report (25 max. companies)
Climate change	Climate-related risks and opportunities the company has identified	16 to 23	0	1 to 7	8 to 15
	How the company manages climate-related risks and opportunities	8 to 15	8 to 15	8 to 15	24 to 32
	Direct greenhouse gas emissions (Scope 1) (metric)[a]	1 to 7	0	1 to 7	16 to 23
	Indirect greenhouse gas emissions (Scope 2) (metric)[a]	0	0	1 to 7	16 to 23
	Value chain greenhouse gas emissions (Scope 3) (metric)[a]	0	0	0	8 to 15
	Reductions in greenhouse gas emissions (metric)	1 to 7	1 to 7	1 to 7	16 to 23
Resource management[b]	Risks and opportunities the company has identified related to energy or water resource management	16 to 23	1 to 7	1 to 7	8 to 15
	How the company manages risks and opportunities related to energy or water resource management	8 to 15	8 to 15	8 to 15	16 to 23
	Total energy consumption or water withdrawal (metric)	1 to 7	0	1 to 7	8 to 15
	Energy consumption reduced or water withdrawal from areas with water stress (metric)	0	1 to 7	0	8 to 15
Human rights	Identification of company operations that might endanger human rights	1 to 7	0	0	1 to 7
	Company actions to protect human rights	1 to 7	1 to 7	1 to 7	16 to 23
	Number of human rights infringements identified by the company (metric)	0	0	0	1 to 7
	Number of human rights reviews of operations performed by the company (metric)	0	0	0	1 to 7
Personnel management	Obstacles that might limit the company's ability to hire the talent it needs	24 to 32	1 to 7	1 to 7	1 to 7
	How the company recruits and retains personnel	8 to 15	16 to 23	1 to 7	16 to 23
	Percentage of employees leaving the company either voluntarily or involuntarily (metric)	0	1 to 7	1 to 7	1 to 7
	Breakdown of employees by full- and part-time (metric)	1 to 7	0	0	1 to 7
	Percentage of employees represented by a collective bargaining agreement (metric)	8 to 15	1 to 7	0	8 to 15
Workforce diversity	Company actions to promote diversity and inclusion	1 to 7	16 to 23	1 to 7	24 to 32
	Company actions to prevent and address discrimination	0	1 to 7	0	8 to 15
	Percentage of employees by gender (metric)	0	1 to 7	1 to 7	16 to 23
	Percentage of employees by race, ethnicity, or other demographic indicators (metric)	0	1 to 7	1 to 7	16 to 23
	Percentage of board members by race, ethnicity, or gender (metric)	0	16 to 23	1 to 7	8 to 15
Board accountability	Company actions to incorporate shareholder preferences in board nominations	1 to 7	24 to 32	0	1 to 7
	Company actions to avoid conflicts of interest among board members	1 to 7	24 to 32	0	1 to 7
	Company actions to add new directors to the board	0	24 to 32	1 to 7	1 to 7
	Number of independent board members (metric)	1 to 7	24 to 32	1 to 7	1 to 7
Data security	How the company identifies and addresses data security risks	24 to 32	8 to 15	1 to 7	8 to 15
	How the company uses and protects consumer data	16 to 23	0	1 to 7	8 to 15
	Number of data security incidents (metric)	0	0	1 to 7	1 to 7
Occupational health and safety	How the company manages occupational health and safety risks	8 to 15	16 to 23	8 to 15	16 to 23
	Hours of health and safety training for employees (metric)	0	0	0	1 to 7

Number of companies: 0; 1 to 7; 8 to 15; 16 to 23; 24 to 32

Source: GAO analysis of company disclosures. | GAO-20-530

[a]Scope 1 emissions are direct emissions from sources that are owned or controlled by the company, such as emissions from on-site fossil fuel combustion, company vehicles, and wastewater treatment.

Scope 2 emissions are indirect emissions from purchased electricity. Scope 3 emissions are indirect emissions from sources not owned or directly controlled by the company but that are related to the company's activities, such as employee travel and commuting.

[b]Our review of resource management information covered energy management topics for companies in the airline, commercial banking, consumer retail, and internet media and services industries, and covered water management topics for companies in the beverage, biotechnology and pharmaceuticals, electric utilities, and oil and gas production industries.

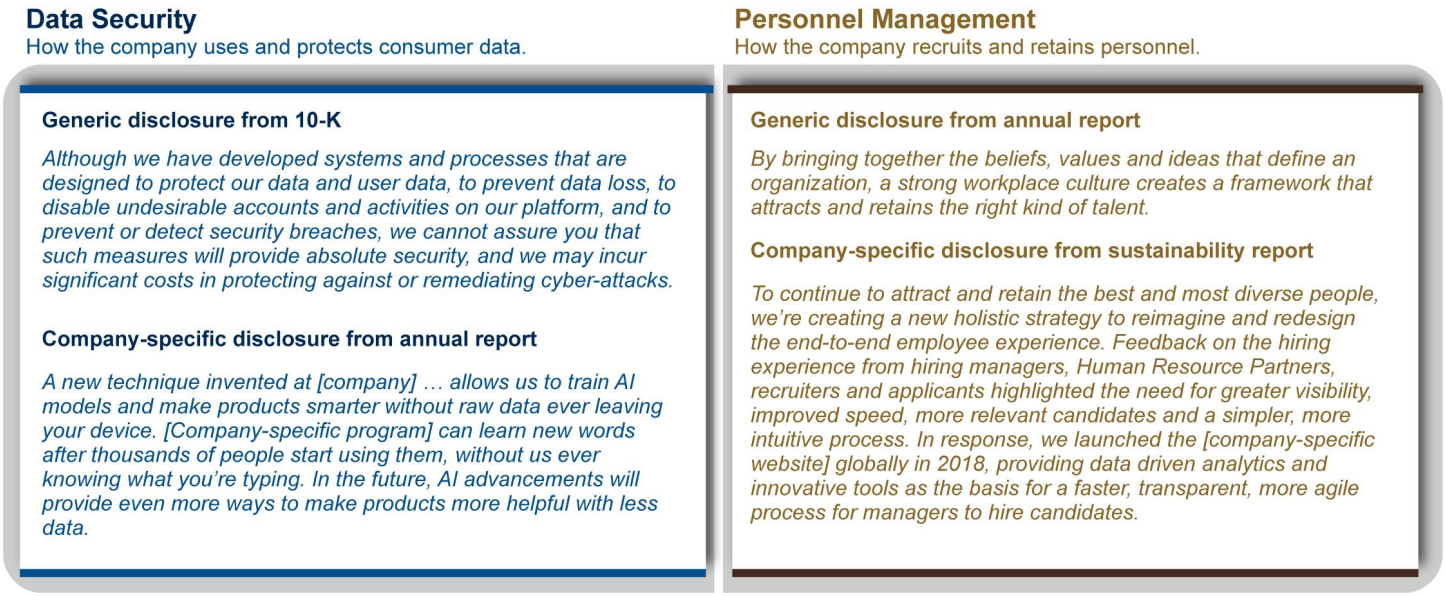
Notes: We reviewed 32 selected companies' 2018 10-Ks, 2019 definitive proxy statements (which typically covered the same reporting period as the 2018 10-K), and 2018 annual reports (when different from the 10-K). We also reviewed companies' most recent sustainability reports available on their websites, accessed from July through December 2019. These documents generally contained data from 2018, but some contained data from 2017 and 2019. Companies can report ESG information through means other than these four documents, such as through their websites or issue-specific company reports. There are several reasons why a company may not disclose information on a specific ESG topic, including that the topic is not relevant to its business operations or material.

As discussed earlier, some investors with whom we spoke said they seek additional narrative disclosures from companies whose disclosures contained generic language or did not provide specific details about how the company manages ESG-related risks or opportunities. Among the 33 ESG topics we reviewed, 16 were topics for which companies reported a narrative rather than quantitative disclosure. We categorized these narrative disclosures as either generic or company-specific (see fig. 5 for examples).[39] We defined company-specific disclosures as those that discussed specific ways that ESG-related risks and opportunities could affect the company's operations or specific steps the company takes to manage or respond to the ESG-related risks or opportunities. We defined disclosures that did not include such specific details as generic disclosures. As a result, such generic disclosures can be considered applicable to the reporting company as well as to many of its peers. According to two reports, companies may choose not to disclose more detailed information for a particular ESG topic for several reasons, including concerns that such disclosures would put the company at a competitive disadvantage or expose it to legal liability.[40]

[39]We considered each disclosure as a whole and, if it provided some company-specific information, we categorized the disclosure as company-specific. We did not characterize quantitative disclosures as we considered them to be inherently company-specific.

[40]Fatima Maria Ahmad, *Beyond the Horizon: Corporate Reporting on Climate Change* (Center for Climate and Energy Solutions, September 2017); and Sullivan and Cromwell, LLP, *2019 Proxy Season Review, Part I: Rule 14a-8 Shareholder Proposals* (July 2019).

Figure 5: Examples of Generic and Company-Specific Disclosures



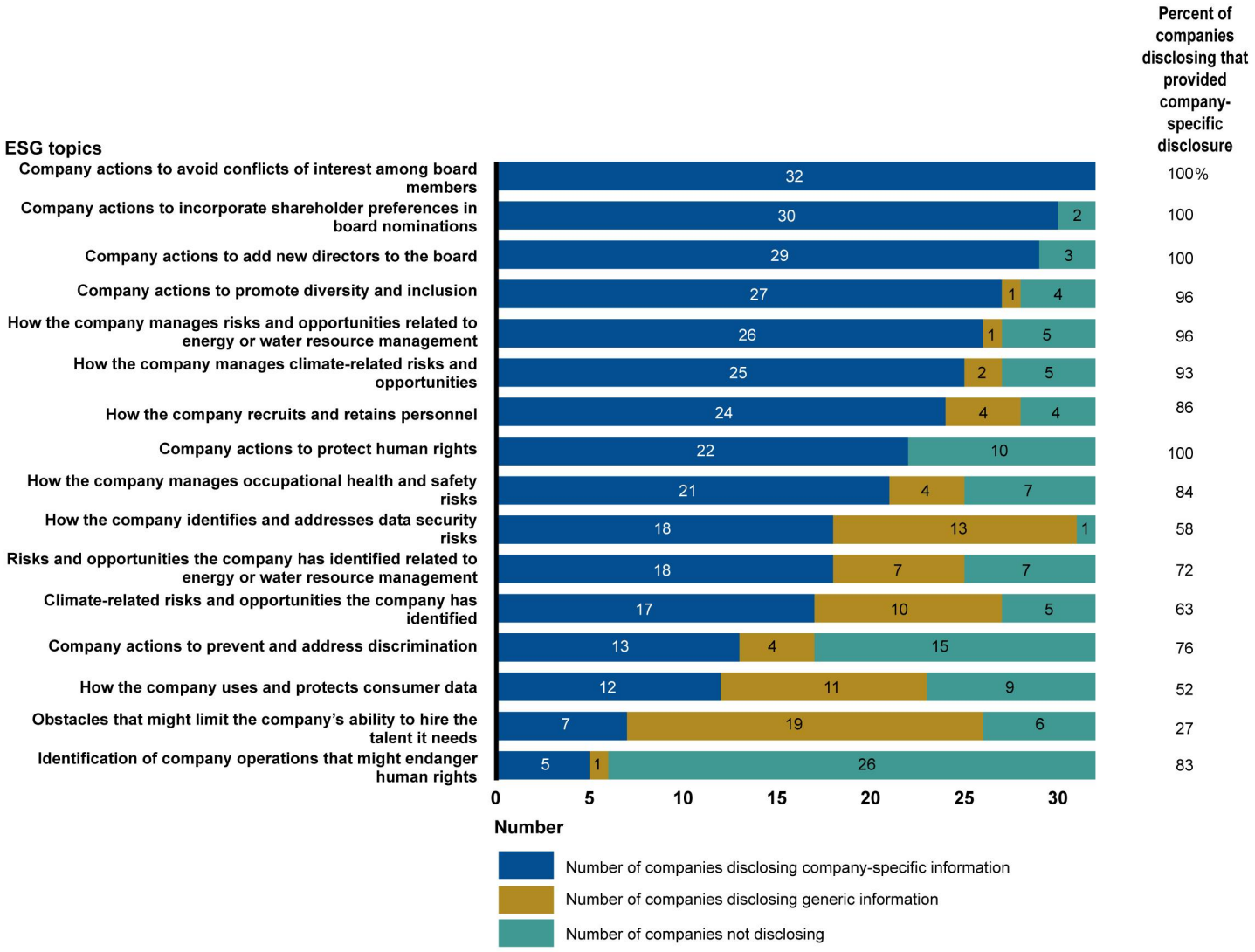
Source: GAO analysis of company disclosures. | GAO-20-530

Note: We removed direct references to company names and company programs from these excerpts.

For 11 of the 16 narrative topics, among companies for which we identified disclosures on these topics, at least 75 percent disclosed company-specific information (see fig. 6). For certain topics, such as those related to companies' actions to add new directors to the board and promote diversity and inclusion, most companies disclosed information and nearly all of those companies reported company-specific information. In contrast, for other narrative topics, such as addressing data security risks and describing climate-related risks and opportunities, we identified company-specific information for less than two-thirds of disclosing companies. In addition, for one narrative topic, describing obstacles that might limit the company's ability to hire the talent it needs, less than one-third of disclosing companies reported company-specific information. We also found that disclosures we identified in companies' 10-K filings were less likely to be company-specific than those in the other three types of documents we reviewed.[41]

[41]More companies disclosed company-specific information than generic for three of 16 narrative topics in the 10-K. For the proxy statement, annual report, and sustainability report, those numbers were 12, 10, and 16 of 16, respectively.

Figure 6: Category of Disclosure on Certain Environmental, Social, and Governance (ESG) Topics of Selected Companies, Generally Covering Data from 2018



Source: GAO analysis of company disclosures. | GAO-20-530

Notes: We reviewed 32 selected companies' 2018 10-Ks, 2019 definitive proxy statements (which typically covered the same reporting period as the 2018 10-K), and 2018 annual reports (when different from the 10-K). We also reviewed companies' most recent sustainability reports available on their websites, accessed from July through December 2019. These documents generally contained data from 2018, but some contained data from 2017 and 2019. We categorized disclosures we identified in these documents as either company-specific (narrative specific to that company's risks or management activities) or generic (narrative that could broadly apply to many companies) for 16 narrative ESG topics.

Though most of the narrative ESG disclosures we reviewed contained company-specific details, these disclosures varied in the amount of detail

they provided about how a company manages ESG-related risks and opportunities (see fig. 7). In particular, some companies' disclosures included details about specific steps the company was taking to manage an ESG-related risk or opportunity and details about the results of such efforts, while others did not. To the extent that some companies provided more detailed disclosures, those companies' disclosures could be of greater usefulness to investors trying to understand the ESG risks facing a company or the steps the company was taking to manage ESG risks.

Figure 7: Examples of the Range of Detail in Company-Specific Environmental, Social, and Governance (ESG) Disclosures

Board Accountability

Company actions to add new directors to the board.

Workforce Diversity

Company actions to promote diversity and inclusion.

Examples of company-specific disclosures that provided limited details about the specific steps the company took to address an ESG risk or opportunity.

Disclosure from company's proxy statement

Our Governance Committee believes that it is important to maintain a balance of tenure on the Board to benefit from the business, industry and governance experience of longer-serving directors; the fresh perspectives contributed by new directors; and the value of continuity as Board composition changes. Our Governance Committee approaches its task of recommending candidates for election or re-election with the goal of having a mix of directors with long, medium and short tenures on the Board. It therefore aims to have a measured rate of Board refreshment.

Disclosure from company's sustainability report

[The company's] Corporate Diversity Council sponsors the company's diversity and inclusion strategy by executing business-unit specific initiatives, which results in a diverse and inclusive culture where employees feel valued and motivated to do their best every day.

Examples of company-specific disclosures that described the specific steps the company took to address an ESG risk or opportunity but that did not describe the results of these efforts.

Disclosure from company's proxy statement

Directors are elected each year, at the Annual Meeting of Shareowners, to hold office until the next Annual Meeting and until their successors are elected and qualified… Furthermore, pursuant to our Corporate Governance Guidelines, Directors whose job responsibilities change or who reach the age of 74 are asked to submit a letter of resignation to the Board. These letters are considered by the Board and, if applicable, annually thereafter.

Disclosure from company's proxy statement

We have since added many new internal programs, including: [Program 1] and [Program 2]. [Program 1] trains managers to understand the issues that affect underrepresented communities and to actively solicit input from people who may feel excluded. [Program 2] gives everyone at [the company] the common language, tools, and space to identify when someone may be experiencing bias and to stand up in support of them.

Examples of company-specific disclosures that described the specific steps the company took to address an ESG risk or opportunity and that provided results of these efforts.

Disclosure from company's proxy statement

To promote thoughtful Board refreshment, we have: developed a comprehensive, ongoing Board succession planning process; implemented an annual Board and Committee assessment process; and adopted a policy in which no director may stand for election to the Board after reaching the age of 72. Eight of the 13 director nominees have joined since the beginning of 2014. The average age of our director nominees and our independent director nominees is 60.6 years and 61.1 years, respectively. The average tenure of all our director nominees and our independent director nominees is 6.1 years and 6.6 years, respectively.

Disclosure from company's sustainability report

We launched bias training to provide our team with tools to recognize and manage bias and to understand how our similarities and differences can enhance our team and our business. We are taking a thoughtful approach to how we roll it out to our full organization. We started with taking 7,000 of our headquarters team members through a three-hour bias training session that equated to 21,000 hours of training. In addition, we are embedding bias training for our team members into regular training that they have throughout the year, as well as for new team members joining [the company].

Source: GAO analysis of company disclosures. | GAO-20-530

Note: We removed direct references to company names and company programs from these excerpts.

Differences in How Companies Reported Some Quantitative ESG Topics Could Limit Comparisons across Companies

We identified inconsistencies in how companies disclosed on some of our selected quantitative ESG topics, which may limit investors' ability to compare these disclosures across companies.[42] Specifically, we found instances where companies defined terms differently or calculated similar information in different ways. We most frequently identified these inconsistencies in quantitative topics associated with climate change, personnel management, resource management, and workforce diversity. For quantitative topics related to data security, human rights, and occupational health and safety, five or fewer of the 32 companies in our sample disclosed information on these topics, limiting comparisons across companies.

As previously discussed, some investors told us that one of the reasons they seek additional ESG disclosures is because it is difficult to compare disclosures across companies. SEC also noted in a 2016 concept release that sought comment on modernizing certain disclosure requirements in Regulation S-K that consistent disclosure standards can increase the efficiency with which investors process the information.[43] Additionally, three of the most commonly used ESG disclosure frameworks—GRI, SASB, and TCFD—have a stated goal to help companies disclose information in a way that allows investors to compare information among companies.

Despite this focus on comparable reporting from investors, regulators, and standard-setters, we identified instances where companies reported certain quantitative metrics differently from one another for some ESG topics. For example, in workforce diversity disclosures, some companies reported their employee demographics using broad groupings, such as "minority" or "ethnically diverse," while others reported by specific racial or

[42]Our review focused on disclosures for selected ESG topics. While inconsistencies also may exist in other disclosure areas that are not governed by commonly accepted standards, these areas were outside the scope of our study. We identified these inconsistencies through our review of public companies disclosures on ESG topics, which, as previously mentioned, is not intended to be a comprehensive list of companies' ESG disclosures on our selected topics.

[43]Business and Financial Disclosure Required by Regulation S-K, 81 Fed. Reg. 23,916, 23,919 (Concept Release, Apr. 22, 2016).

ethnic groups. Similarly, some companies defined greenhouse gas emissions differently. Most companies combined carbon dioxide and other greenhouse gases when reporting emission data, but a few reported carbon dioxide emissions alone.

We also identified instances of companies using different calculation methods or units of measure when reporting information related to climate change and resource management. For example, companies used different base years when calculating their reduction in greenhouse gas emissions, limiting their comparability. Some companies reported reductions year-over-year, while many reported reductions over multiple years with no consistency within or across industries. For example, airline companies we reviewed reported emission reductions with base years ranging from 1990 to 2017. Similarly, when disclosing total water withdrawal, eight companies used metric units of measure while two companies used imperial units of measure.

Companies that used the same ESG framework did not always disclose on ESG topics in a consistent manner. Specifically, we identified the types of inconsistencies discussed above in quantitative disclosures among those companies using the GRI framework.[44] For example, we identified four different methods for reporting workforce diversity among companies that reported using the GRI framework to develop their disclosures. The GRI framework does not specify the method for reporting diversity information, as it does for certain other topics.

SEC Primarily Uses a Principles-Based Approach for Overseeing ESG Information and

[44]We reviewed how those companies that reported using the GRI framework disclosed information on these topics because GRI was the disclosure framework companies reported using most frequently. Of the selected companies, 14 reported using the GRI framework and four companies reported using the SASB framework to disclose ESG information in their sustainability reports.

Has Taken Some Steps to Assess ESG Disclosures

SEC Provides Flexibility to Companies to Determine Whether ESG-Related Information Is Material and Should Be Disclosed

SEC staff generally use a principles-based approach to overseeing public companies' disclosures of nonfinancial information, including information on ESG topics.[45] Under this approach, SEC staff rely primarily on companies to determine what information is material and requires disclosure in their SEC filings, such as the 10-K filing.[46] SEC officials noted that companies are ultimately responsible for the disclosures they provide to investors, and they have liability for their disclosures under federal and state securities laws.[47] While federal securities laws generally do not specifically address the disclosure of ESG information, Regulation S-K's disclosure requirements for nonfinancial information apply to material ESG topics.

Corporation Finance officials noted that their reviews of public companies' 10-K filings are not a checklist review for compliance with securities regulations. Instead, these reviews are meant to identify and address potentially significant disclosure issues, such as nondisclosure of information that the Corporation Finance review team believes is material and therefore may influence an investor's investment decision. Some

[45]Regulation S-K contains disclosure requirements that are applicable to the nonfinancial portion of public companies' 10-K filings to SEC. Principles-based disclosure requirements state an objective and look to management to exercise judgment in satisfying that objective by evaluating the significance of information to determine whether disclosure is required. Regulation S-K also includes prescriptive disclosure requirements, such as costs of complying with environmental laws and regulations. As previously mentioned, certain ESG topics such as board composition, executive compensation, and audit committee structure are specifically addressed in SEC's rules and regulations.

[46]As previously discussed, companies' disclosure of material information can include known trends, events, and uncertainties that are reasonably likely to have a material effect on the company's financial condition or operating performance, as well as potential risks to investing in the company.

[47]Public companies can face liability under securities laws for disclosing false or misleading statements or for omitting a material fact when inclusion of that fact is necessary to prevent a statement from being misleading.

Corporation Finance review staff told us that in their reviews of public companies' 10-K filings they generally defer to companies' determinations about which ESG information is relevant to their business and should be disclosed. Review staff also generally said they perform company- and industry-specific research as part of their review, including company websites, web searches for news articles, and earnings calls that may identify material ESG information. In a January 2020 statement that addressed climate change and environmental disclosures, the SEC Chairman reiterated his view that SEC's approach to disclosure on these topics should continue to be rooted in materiality, including providing investors with insight regarding the company's assessments and plans for addressing material risks to its business operations. The Chairman's statement also noted that this approach is consistent with the Commission's ongoing commitment to ensure that current disclosures on these issues provide investors with a mix of information that facilitates well-informed capital-allocation decisions.[48]

Corporation Finance has provided its review staff with internal review guidance that highlights relevant issues to consider, while emphasizing the use of professional judgment when reviewing companies' 10-K and other filings. Staff use internal procedural guidance that provides steps for conducting and documenting reviews of filings. While this guidance does not include specific instructions for reviewing ESG disclosures, staff are instructed to conduct background research on companies and industries to determine if there is material information, such as potential risks, that may be relevant to a company's filing. As noted above, according to review staff, this company-specific research could include ESG information.

In addition, Corporation Finance has distributed internal review guidance on a few ESG-related topics. This guidance illustrates how existing disclosure requirements may apply to a given topic and offers information for staff to consider when conducting background research and performing filing reviews. In cases where the SEC review team identifies a potential disclosure deficiency related to an ESG or other topic, they may issue a comment letter to the company to request additional information or additional disclosures when necessary. Most review staff with whom we spoke said ESG-related information generally does not rise

[48]"Proposed Amendments to Modernize and Enhance Financial Disclosures; Other Ongoing Disclosure Modernization Initiatives; Impact of the Coronavirus; Environmental and Climate-Related Disclosure," Chairman Jay Clayton (Jan. 30, 2020).

to the level of comment unless they identify material information during background research that may be relevant to the company's operations.

In April 2019, Corporation Finance reallocated responsibilities for reviewing nonfinancial information in 10-K filings, which also can include ESG information, from attorneys to accountants. Corporation Finance officials cited resource constraints, which reduced the number of attorneys within the Division, as a factor in this decision.[49] While review teams vary by industry group and company, attorneys previously held primary responsibility for reviewing nonfinancial disclosures, whereas accountants primarily reviewed financial statements and related disclosures in 10-K filings. SEC staff provided training to accountants on how to conduct these reviews, which outlined Regulation S-K reporting requirements for nonfinancial disclosures and highlighted areas for staff to consider in various sections of the 10-K. Two of six accounting review staff with whom we spoke noted that this training was thorough and said they refer to training materials when conducting 10-K filing reviews. Additionally, most accounting review staff told us they can consult legal staff within their industry offices during reviews as necessary. According to Corporation Finance officials, attorneys may still participate in reviews of 10-K filings.[50] Accounting staff also noted that they previously reviewed nonfinancial information within the context of financial disclosures as part of their financial reviews of 10-K filings.

SEC Took Steps to Assess Samples of Companies' ESG Disclosures and Identify Emerging Issues

Corporation Finance has conducted assessments of samples of public companies' 10-K filings to examine the amount and type of disclosure on selected ESG topics. Overall, Corporation Finance staff found that most sampled companies included disclosure of selected ESG topics within 10-K filings and told us they did not issue additional guidance or interpretive releases on these topics following these assessments.

[49]SEC implemented a hiring freeze from fiscal years 2017 to 2019, and , according to Corporation Finance officials, experienced a decrease of more than 350 positions during this time.

[50]According to Corporation Finance officials, the extent to which attorneys participate in 10-K filing reviews depends on the workload for each industry office. For example, because attorneys primarily focus on reviewing initial public offerings, attorneys may review fewer 10-Ks in industry offices with a large volume of initial public offerings, according to Corporation Finance officials .

- **Climate change disclosures:** In 2012 and 2014, SEC staff issued mandated reports to the Senate Committee on Appropriations that assessed the compliance of climate change disclosures included in a sample of 60 companies' 10-K filings in selected industries. The Committee had required these reviews following SEC's issuance of its interpretive release on climate change disclosures in 2010. SEC staff found that most sampled companies included climate-related information within their 10-K filings with varying levels of detail. Since 2014, Corporation Finance has conducted additional internal assessments on these topics that have resulted in findings consistent with previous reviews.
- **Additional ESG-related disclosures:** In recent years, Corporation Finance staff conducted additional assessments of disclosures related to some ESG topics. These assessments involved staff reviewing the disclosures of a sample of companies' filings and evaluating compliance with disclosure requirements. Corporation Finance found that while the level of detail among disclosures varied, nearly all companies included the relevant ESG topic within their filings. Additionally, Corporation Finance staff outlined action items for the Division, such as providing comments to companies as appropriate and monitoring press reports for information that may be material for companies to disclose.

In addition to internal assessments, SEC has taken steps to identify significant emerging disclosure issues through the creation of the Office of Risk and Strategy within Corporation Finance. According to Corporation Finance officials, this office was created in February 2018 and was allocated additional resources in October 2019 to support its risk surveillance function, in which it identifies emerging issues that may be material for public companies by reviewing press articles, speeches, and information from other sources such as industry experts. According to Corporation Finance officials, once the office identifies an issue that may present material disclosure risks, it may perform research and analysis that can determine whether further internal or external guidance may be necessary. Corporation Finance officials also noted these efforts may result in additional guidance to review staff based on topics identified.

Policy Options to Enhance ESG Disclosures Range from Regulatory Actions to Private-Sector Approaches

Investors and market observers have proposed a range of policy options to improve the quality and usefulness of ESG disclosures.[51] These options include legislative or regulatory action to require or encourage certain ESG disclosure practices, as well as private-sector approaches, such as industry-developed frameworks and stock-exchange listing requirements.

These policy options can pose important trade-offs in relation to the extent to which they impose specific new disclosure requirements or encourage companies to voluntarily adopt certain ESG disclosure practices. For example, while new ESG-related requirements may help achieve greater comparability in ESG disclosures across companies and reduce investor demands on public companies, voluntary approaches may provide more flexibility to companies while limiting potential costs associated with disclosing ESG information that may not be relevant for their business.

Legislative or Regulatory Actions

Some institutional investors and market observers have proposed new legislative or regulatory requirements to enhance public companies' ESG disclosures. These actions could take the form of new requirements for specific ESG disclosures, a new SEC regulation that endorses the use of an ESG disclosure framework, or new SEC interpretive releases on ESG disclosure topics.

Issue-Specific Rulemaking

Some market observers have recommended that SEC issue new rules requiring issue-specific ESG disclosures, such as disclosures related to

[51] As previously mentioned, we interviewed 14 institutional investors (seven private asset management firms and seven public pension funds) and 13 groups and organizations that we refer to as market observers in this report.

climate change.[52] For example, one investor association said that it has supported various petitions and requests for rulemaking at SEC on environmental and human capital issues. SEC has taken steps to consider these types of issue-specific ESG disclosures. For example, in August 2019, SEC proposed including disclosure topics related to human capital resources and management in the description of business section of Regulation S-K.[53] The rule has not been finalized, but in comment letters to SEC on the proposed rule, some organizations requested more line-item disclosures and metrics on this topic.[54]

Gender Pay Gap Disclosure Requirements in the United Kingdom (UK)

In 2017, the UK required issue-specific disclosure rules for large companies to report the difference in average pay for male and female employees, according to a report by the UK House of Commons' Business, Energy, and Industrial Strategy Committee. An intended benefit of gender pay gap disclosure is achieving greater equity in pay by gender and improved economic performance among UK companies, according to this committee report. However, the committee found in its 2018 review of this reporting that some companies were unsure how to account for alternative compensation, such as child care vouchers and bonuses, and that additional guidance was necessary to help companies standardize their disclosures. The committee's report also recommended that the government mandate narrative disclosures where companies explain their action plan for closing any gender pay gap they may have.

Source: UK House of Commons, Business, Energy and Industrial Strategy Committee, *Gender Pay Gap Reporting*, Thirteenth Report of Session 2017–2019 (July 2018). | GAO-20-530

As previously mentioned, most investors told us they seek comparable information across companies, which line-item disclosure requirements may facilitate. Increasing comparability across companies also may reduce investor demands on companies, which have been increasing the

[52]We identified several bills recently introduced in the House and Senate that would require certain companies to disclose additional ESG information. These bills include disclosures on a variety of issues such as information regarding sexual harassment claims, financial and business risks associated with climate change, and the racial, ethnic, and gender composition of the board of directors and executives. As of May 2020, none of these bills had become law.

[53]*See* 84 Fed. Reg. 44,358 (proposed Aug. 23, 2019).

[54]Other organizations commented, cautioning against line-item disclosures for several reasons, including those discussed later, such as costs to companies or lack of flexibility.

last 5 years, according to most companies with whom we spoke.[55] Additionally, requiring ESG disclosures in companies' regulatory filings—rather than across multiple locations—could reduce information disparities between large and small investors, because the information would be located in a single place that was readily available to everyone. For example, some third-party data providers, which compile ESG information from various sources, may be prohibitively expensive to individual investors and small advisors, according to a study commissioned by the Department of Labor.[56]

One impediment to improved ESG disclosures that some institutional investors, companies, and market observers with whom we spoke cited was the lack of consensus around what information companies should be disclosing. Focusing on issue-specific ESG disclosure rules could allow SEC to enhance disclosures on the most pressing issues that may have more consensus, according to two academics we interviewed. As previously discussed, our review found that several ESG factors were commonly disclosed by companies across industries, including board accountability, climate change, and workforce diversity.

On the other hand, regulatory requirements that necessitate new or additional disclosures may increase compliance costs for companies. None of the 18 companies with whom we spoke had quantified the costs associated with their ESG reporting. However, companies generally said that collecting and reporting ESG information required input from employees across the company. Three companies said ESG reporting represented an increasing opportunity cost as employees spent more time on reporting and away from business activities. Data not used in regular business operations or data that required outside assurance were the most costly disclosures, according to some companies.

In addition, some market observers have noted that issue-specific rules can become outdated as issues evolve and that these types of disclosures would reduce flexibility for companies. Line-item or issue-specific disclosures also may not be relevant for all companies, possibly resulting in large volumes of immaterial information. According to one

[55]As previously mentioned, we interviewed representatives from 18 of our nongeneralizable sample of 32 public companies.

[56]Summit Consulting, LLC, *Environmental, Social, and Governance (ESG) Investment Tools: A Review of the Current Field*, a report prepared at the request of the Chief Evaluation Office, Department of Labor, December 2017.

academic, compelling companies to disclose on issues that may not be relevant to them could distract companies from using resources on the relevant disclosures.

Endorse an ESG Framework in Regulation

Other market observers recommended that SEC issue a new rule endorsing one or more comprehensive ESG reporting frameworks, such as SASB or GRI, for companies' reporting of material ESG issues. SEC has required the use of frameworks in other rulemakings, such as rules related to companies' evaluation and disclosure of their internal controls. For that rule, SEC endorsed the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework as satisfying regulatory requirements.[57] In its evaluation of several countries' reporting policies, the United Nations Environment Programme recommended regulators use existing international standards and guidelines when developing sustainability reporting policies.[58]

Regulations that endorse one or more frameworks could maintain flexibility for companies, because companies could choose which parts of the framework are relevant to their businesses. In addition, frameworks can be updated over time without necessitating new rulemaking in contrast to issue-specific requirements that could become outdated. Some institutional investors and companies with whom we spoke noted the importance of flexibility if there were to be any new regulation for ESG disclosures. Additionally, frameworks could encourage companies to disclose on a wide range of ESG issues. Most investors told us they focused on a broad array of ESG issues in their analyses.

[57] *See* Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, 68 Fed. Reg. 36,636, 36,642 (June 18, 2003).

[58] United Nations Environment Programme, *Evaluating National Policies on Corporate Sustainability Reporting* (2015).

European Union Directive Endorsement of ESG Frameworks

A 2014 European Union directive that endorsed companies' use of existing frameworks to report how they manage social and environmental challenges has needed several updates to improve comparability across companies, according to a report by the European Securities and Markets Authority (ESMA). In 2017 and 2019, the European Commission issued voluntary guidelines for the directive that encouraged companies to use an established disclosure framework to make nonfinancial information easier to report and compare, according to ESMA. However, respondents to a 2019 survey by ESMA said that among other obstacles, the lack of specificity in the directive's requirements and the use of various frameworks contributed to a lack of comparability among companies' environmental, social, and governance (ESG) disclosures. As a result, ESMA recommended the European Commission amend the directive to include both general principles for reporting ESG information as well as a set of specific, universal disclosures.

Source: European Securities and Markets Authority, *Report: Undue Short-Term Pressure on Corporations* (December 2019). | GAO-20-530

However, companies reporting based on different frameworks may limit comparability across companies, and there was not consensus on which framework companies should use. While some institutional investors told us they supported SASB's framework, investors also mentioned other frameworks such as GRI, TCFD, and CDP. In a 2019 survey of 46 global institutional investors, a consulting firm found that agreeing on ESG standards that are relevant to companies' performance was a challenge.[59] Additionally, the Chamber of Commerce noted that companies said in roundtable discussions that the lack of universally accepted ESG reporting standards was a major challenge to effective ESG reporting.[60] There have been initiatives recently to standardize ESG frameworks.[61] However, a project to improve comparability across frameworks found that there were already high levels of agreement between climate change disclosures standards and that standard-setting organizations needed to more clearly communicate how their standards were interconnected.[62]

Additionally, companies reporting under a framework may choose not to disclose certain ESG information, which could result in less comparability. As previously discussed, among the company disclosures we reviewed, we identified instances of calculation inconsistency among quantitative disclosures for companies that reported information according to GRI—the most prevalent reporting framework in our sample—because GRI does not always include prescriptive disclosure recommendations and sometimes allows for different calculation methods.

SEC Interpretative Releases

Some institutional investors and companies with which we spoke indicated that additional SEC interpretative releases addressing how ESG topics fit within existing disclosure requirements could be helpful. These

[59]Morrow Sodali, *Institutional Investor Survey 2019.*

[60]U.S. Chamber of Commerce Foundation and the Chamber's Center for Capital Markets Competitiveness, *Corporate Sustainability Reporting: Past, Present, and Future* (November 2018).

[61]For example, in 2019, the World Economic Forum International Business Council—an organization of approximately 120 large multinational companies—launched a project to create a standard set of metrics for ESG reporting. The project partnered with four large accounting firms and published a proposed set of metrics in January 2020. World Economic Forum, *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation* (January 2020).

[62]Corporate Reporting Dialogue, *Driving Alignment in Climate-Related Reporting, Year One of the Better Alignment Project* (September 2019).

releases can highlight the importance of ESG disclosures without requiring a rule change, because they clarify without changing the existing disclosure requirements. Some investors and SEC review staff said that interpretive releases serve as a good reminder for companies to consider ESG issues in their disclosures. Interpretive releases also maintain flexibility for companies to disclose the information that is material for each company. However, two market observers noted that because these releases do not create new disclosure requirements, they may not have much impact on ESG disclosures on their own.

About half of the companies told us previous SEC releases had been helpful, but most investors said disclosures on these issues remain inconsistent. Eight of 18 companies said SEC's previous releases on climate change and cybersecurity had helped create an even playing field for companies or underscored the need for more transparency on these issues, among other things. However, two investors and one international organization noted that the release on climate change did not appear to expand disclosure of climate change risk among U.S. companies. As previously discussed, SEC staff reviewed samples of company's disclosures on climate change and found that most sampled companies included climate-related information within their 10-K filings with varying levels of detail. As a result, SEC staff decided against recommending that the Commission issue additional releases.

Private-Sector Approaches

Some institutional investors, companies, and market observers have cautioned against legislative and regulatory intervention in ESG disclosures and have recommended private-sector approaches to improve companies' ESG disclosures. One advantage of private-sector approaches is that because they are voluntary, they provide companies with flexibility. Some investors and companies said flexibility was important in ESG reporting because the relevance of ESG issues can vary by company and change over time. Conversely, because ESG disclosures remain voluntary under these approaches, companies may choose not to use them in their reporting. Private-sector approaches could include industry-developed frameworks and stock exchange listing requirements.

Industry-Developed Frameworks

Some market observers with whom we spoke recommended that industries develop their own industry-specific ESG framework. For example, Edison Electric Institute and the American Gas Association partnered to develop standards to guide electric and natural gas companies' ESG reporting. According to the American Gas Association, the framework was created to provide the financial sector with more uniform and consistent ESG data and information.[63] SASB's framework also provides industry-specific standards, covering 77 different industries.

Industry-specific standards focus on ESG issues that industry representatives believe are relevant to that industry. Some investors, companies, and market observers said that ESG issues vary by industry and therefore industry-specific standards are preferred. As previously discussed, we identified some differences in the amount of disclosures on specific ESG topics between industries. Agreed-upon industry-specific standards provide consensus across various stakeholders and provide comparability of ESG disclosures across companies, according to some market observers, which also may reduce investor demands on companies.

One disadvantage of relying on industries to create standards is that some industries may be diverse and unable to find consensus on standards. For example, two companies told us that their unique business model does not fit into one industry group. Company and trade association interests also may conflict with those of investors and other stakeholders. According to two academics with whom we spoke, individual companies do not have an incentive to work towards standardized ESG reporting standards and will not do so on their own.

Stock Exchange Listing Requirements

In some countries, stock exchanges have used ESG disclosure listing requirements to try to improve companies' disclosures. The United States has several stock exchanges that list publicly traded companies, and none have extensive ESG disclosure listing requirements. NASDAQ produces a voluntary ESG reporting guide for companies and the New York Stock Exchange, as a subsidiary of the Intercontinental Exchange,

[63]IPIECA, the American Petroleum Institute, and the International Association of Oil and Gas Producers also developed guidance for the oil and gas industry on voluntary ESG reporting.

has declared its support for ESG disclosures of its listed companies, but neither requires such ESG reporting to be listed on its exchange.

ESG reporting endorsements from stock exchanges has been shown to accelerate the adoption of integrated reporting in other countries, according to two industry studies.[64] One third-party data provider noted that listing requirements provide an incentive—listing on the exchange—for companies to report on ESG issues. However, competition between U.S. stock exchanges could give companies alternative listing opportunities if one stock exchange enacted ESG disclosure listing requirements. According to officials from the Johannesburg Stock Exchange, as commercial entities, stock exchanges may choose to avoid imposing mandatory listing requirements on companies because they would risk losing listings that generate revenue to other exchanges or discouraging companies from listing publicly.

Johannesburg and Tokyo Stock Exchange Listing Requirements

Stock exchanges in Japan and South Africa are examples where listing requirements have been implemented to improve public companies' environmental, social, and governance (ESG) reporting in those countries. According to officials from Japan's Financial Services Agency, listing requirements on the Tokyo Stock Exchange have helped change how Japanese companies disclose ESG-related information and engage in proactive risk management. Similarly, officials from the Johannesburg Stock Exchange said that its listing requirements have had a positive impact on companies' integrated reporting, which includes ESG information. However, these officials stated that other factors also have contributed to the increase in integrated reporting in South Africa. These include an understanding by local companies of how ESG factors affect their day-to-day operations and increased investor interest in ESG disclosures. According to research comparing integrated reporting in 10 countries, a number of factors contributed to South African companies high-quality integrated reports, including a framework for integrated reporting developed by a local nonprofit organization to assist companies in meeting the listing requirements.

Source: GAO interviews with stock exchange and government officials and Robert G. Eccles, Michael P. Krzus, and Carlos Solano, *A Comparative Analysis of Integrated Reporting in Ten Countries* (March 2019). | GAO-20-530

Finally, some institutional investors, companies, and market observers noted that it was too early to prescribe standards for ESG disclosures, because there is not consensus among companies, investors, and market observers on which ESG issues should be disclosed. The marketplace should be given time to resolve these issues, according to these market participants and observers. Government officials in the United Kingdom and Japan and industry association representatives from South Africa noted that increased investor interest prompted more meaningful ESG disclosures from companies in their countries. However, they said that nonfinancial reporting requirements can be a catalyst for changing attitudes towards ESG disclosures.

Agency Comments

We provided a draft of this report to SEC for review and comment. SEC provided written comments that are reprinted in appendix II. SEC also provided technical comments, which we incorporated as appropriate.

In its written comments, SEC generally concurred with our findings and stated that our report will contribute to the ongoing discussion around ESG disclosures among public companies, investors, and policy makers.

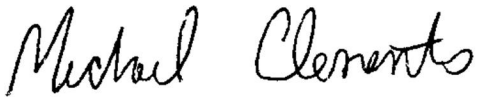
[64]KPMG, *The Road Ahead: The KPMG Survey of Corporate Responsibility Reporting 2017* (October 2017); and Sustainable Stock Exchanges, *10 Years of Impact and Progress: Sustainable Stock Exchanges 2009–2019* (September 2019).

SEC also highlighted some of its related activities, such as issuing interpretive releases on climate change and cybersecurity and soliciting public comments on disclosure requirements. In addition, SEC reiterated its commitment to materiality as the foundational principle for public company disclosure requirements.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 4 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, the Chairman of the Securities and Exchange Commission, and other interested parties. In addition, the report will be available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or clementsm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Sincerely yours,



Michael Clements
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines (1) why and how investors have sought additional environmental, social, and governance (ESG) disclosures; (2) how public companies' disclosures of selected ESG factors have compared within and across selected industries; (3) steps the Securities and Exchange Commission (SEC) staff have taken to assess the effectiveness of the agency's efforts to review the disclosure of material ESG factors; and (4) the advantages and disadvantages of policy options that investors and market observers have proposed to improve ESG disclosures.

Why and How Investors Have Sought Additional ESG Disclosures

To obtain information about why and how investors have sought additional ESG disclosures, we reviewed relevant reports and studies by academics, investment firms, and others published in the last 5 years. We identified these reports and studies through interviewing investors and market observers, reviewing sources cited in documents we obtained, and conducting internet searches. These reports and studies provided investor perspectives on issues related to ESG disclosures, including how investors use ESG disclosures, the types of ESG disclosures investors seek from companies, and investors' use of shareholder proposals to request ESG information.

In addition, we selected a nongeneralizable sample of 14 institutional investors and conducted semi-structured interviews with them to obtain information and perspectives on how and to what extent they incorporate ESG information into their investment decisions, why they do or do not incorporate ESG information, and why and how they engage with companies around these disclosures. Institutional investors include public and private entities that pool funds on behalf of others and invest the funds in securities and other investment assets. For our sample, we selected private-sector asset management firms and public pension funds of varying size:

- four large private asset management firms (each with more than $1 trillion in worldwide assets under management as of December 31, 2018);
- three mid-sized private asset management firms (each with from $500 billion to $1 trillion in worldwide assets under management as of December 31, 2018);
- three large public pension funds (each with more than $100 billion in total assets as of September 30, 2018); and
- four mid-sized public pension funds (each with from $40 billion to $100 billion in total assets as of September 30, 2018).[1]

To get a mix of regional perspectives, we incorporated geographic location into our selection when possible. For example, we selected at least one of the seven public pension funds from each of four U.S. census regions (Northeast, South, Midwest, and West). The information collected from this sample of institutional investors cannot be generalized to the larger population of all institutional investors.

To obtain information about the extent to which investors have used shareholder proposals to promote improved ESG disclosures, we analyzed proposals submitted to a stratified random sample of 100 companies listed as of October 4, 2019, on the S&P Composite 1500, which combines three indices—the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600 (see table 4). For our sample, we refer to companies appearing in the S&P 500 as large, companies in the S&P MidCap 400 as mid-sized, and companies in the S&P SmallCap 600 as small. With this probability sample, each company on the S&P Composite 1500 had a nonzero probability of being included, and that probability could be computed for any company. We stratified the population into three groups on the basis of company size, and each sample element was subsequently weighted in the analysis to account statistically for all the members of the population, including those that were not selected. All sample estimates in this report are presented along with their 95 percent confidence intervals.

[1]In this report, we refer to asset management firms in the private sector as "private" to differentiate them from public pension funds. Our sample of these asset management firms includes firms that are publicly traded.

Table 4: Stratified Random Sample of Companies for Review of Shareholder Proposals

Company size	S&P index (market capitalization range)	Number of companies in index	Number of companies selected for sample
Large	S&P 500 ($8.2 billion or greater)	505	34
Mid-sized	S&P MidCap 400 ($2.4 billion to $8.2 billion)	401	27
Small	S&P SmallCap 600 ($600 million to $2.4 billion)	601	39
Total	**S&P Composite 1500 ($600 million or greater)**	**1,507**	**100**

Source: GAO analysis. | GAO-20-530

Notes: Market capitalization is the total dollar market value of all of a company's outstanding shares. The market capitalization ranges and number of companies included in each S&P index are based on the value and membership of these indices as of October 4, 2019.

For each company in our sample, we obtained and reviewed its definitive proxy statement for the annual meeting that took place in calendar year 2019 to identify shareholder proposals.[2] Using a data collection instrument, we analyzed each shareholder proposal submitted to a company in our sample to determine if it was related to ESG disclosures, what type of ESG disclosure it was requesting (environmental, social, or governance), and what type of investor (such as individual, labor union, or pension fund) requested the proposal. For any company in our sample that disclosed one or more shareholder proposals in its definitive proxy statement, we obtained and reviewed the company's 8-K that included the number of votes each proposal received at the company's annual meeting.[3] We then calculated the percentage of votes in favor of the proposal, using the number of votes shareholders cast in favor of the proposal divided by the sum of votes cast in favor, against, and to abstain. We downloaded these SEC filings from its online Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.

[2]Definitive proxy statements are the final version of proxy statements that public companies are required to file with SEC and provide to shareholders prior to certain shareholder meetings.

[3]In addition to filing annual and quarterly filings with SEC, public companies must file an 8-K to announce major events that shareholders should know about, including the voting results for shareholder proposals presented at the annual meeting.

How Selected Public Companies' ESG Disclosures Compared within and across Industries

To compare public companies' ESG disclosures within and across industries, we identified and analyzed disclosures related to eight ESG factors by 32 large and mid-sized public companies across eight industries. First, we judgmentally selected eight ESG factors by reviewing ESG factors frequently cited by a range of market observers (such as ESG standard-setting organizations, academics, nonprofits, and international organizations) as being important to investors or possibly material for companies in several industries and through discussions with market observers, including two ESG standard-setting organizations and one investor association. We selected eight factors that were among the most frequently cited, including at least two from each of the three categories of ESG (environmental, social, and governance). The eight ESG factors we selected were (1) climate change, (2) resource management (water and energy), (3) human rights, (4) occupational health and safety, (5) personnel management, (6) workforce diversity, (7) board accountability, and (8) data security.

We then judgmentally selected 33 specific topics to represent company disclosures on the eight ESG factors. Among these 33 specific topics, we selected 16 narrative disclosure topics that companies can address by providing a narrative discussion of ESG-related risks and opportunities and their management of them and 17 quantitative disclosure topics that companies can address by providing numbers and percentages. We selected these topics by reviewing four ESG disclosure frameworks and identifying commonly occurring disclosure topics associated with the selected ESG factors.[4] For a list of the ESG factors and topics we selected, see figure 1 in the body of the report.

We then selected a nongeneralizable sample of 32 large and mid-sized public companies to review their disclosures on the eight ESG factors and 33 ESG topics. First, we judgmentally selected eight industries from which to select public companies. We identified industries that were likely to disclose information on the selected ESG factors; had multiple

[4]The four frameworks we reviewed were those published by the Global Reporting Initiative, Sustainability Accounting Standards Board, Task Force on Climate-Related Financial Disclosures, and Investor Stewardship Group. These four frameworks are composed of single-issue categories that contain several specific disclosure topics related to that issue. For example, the Global Reporting Initiative's energy category includes specific disclosure topics on energy consumption and energy reduction for a company.

companies included in the S&P 500; and, when taken together, represented a diverse range of industry sectors. The eight industries we selected were (1) airlines, (2) beverages, (3) biotechnology and pharmaceuticals, (4) commercial banks, (5) consumer retail, (6) electric utilities, (7) internet media and services, and (8) oil and gas production. We used industry classifications from the Standard Industrial Classification system, which SEC's Division of Corporation Finance uses as a basis for assigning review responsibilities for industry groups.[5]

We then selected four public companies within each of these eight industries for a total of 32 companies. We selected four companies per industry that were among the eight largest in terms of market capitalization and that, when considered collectively within industries, provided representation across different U.S. regions. We limited our selection to U.S. public companies that were traded on either of the two largest American stock exchanges. The information collected from this sample of public companies cannot be generalized to the larger population of all public companies.

We reviewed recent regulatory filings for these companies and voluntary reports, such as corporate social responsibility reports, to identify relevant disclosures on the selected ESG topics. We reviewed companies' 2018 10-Ks, 2019 definitive proxy statements (which typically covered the same reporting period as the 2018 10-K), and 2018 annual reports (when different from the 10-K).[6] We also reviewed companies' most recent sustainability reports available on their websites, accessed from July through December 2019.[7] We defined a sustainability report as a voluntary, stand-alone document that provided information on sustainability and other issues related to environmental, social, and

[5]The Standard Industrial Classification was developed by the U.S. government in the 1930s to consolidate various government classification schemes and to facilitate the comparison of industrial data. This classification system is also used for company filings in SEC's EDGAR database.

[6]Companies are required to send an annual report to their shareholders or post the report on their websites before an annual meeting to elect directors. Some companies choose to use their 10-K as their annual report and do not provide separate annual reports. We reviewed annual reports that were distinct from companies' 10-Ks. Of our selected companies, 21 published annual reports separate from their 10-Ks.

[7]The reporting year for these sustainability reports were 2017 (three companies), 2017–2018 (three companies), 2018 (16 companies), or 2018–2019 (three companies). Seven companies did not have sustainability reports available on their websites.

governance factors. Companies can use other means to report ESG information, such as their websites or issue-specific company reports. We did not include single-issue documents or information included on websites that was not also part of the sustainability report.[8] There are several reasons why a company may not disclose information on a specific ESG topic; for example, the topic may not be relevant to its business operations or the company may not consider it to have a significant enough impact on its financial performance to warrant disclosure.

To identify relevant disclosures, we searched each document for a list of keywords related to each of the eight ESG factors to help identify passages likely to contain ESG disclosures on the 33 specific ESG topics. We selected these keywords by reviewing the 33 topics we selected and identifying unique terms associated with them. We categorized each narrative disclosure as being generic or company-specific.[9] We categorized a narrative disclosure as company-specific if it included details about how ESG-related risks and opportunities affect the company's specific operations or how the company manages these risks or opportunities. Otherwise, we characterized the narrative disclosure as generic. Generic narrative disclosures are disclosures that could apply to the reporting company as well as to many of its peers. We considered each disclosure as a whole and, if it provided some company-specific information, we categorized the disclosure as company-specific.

In addition, we conducted semi-structured interviews with representatives of 18 of the 32 selected companies to obtain their perspectives on how they determine what ESG information to disclose, where to disclose it, and the benefits and challenges of ESG reporting. We requested interviews with all 32 of the selected companies, but eight companies declined and six companies did not respond to our request. For those that did not respond, we made at least three requests by email. We interviewed at least one company from each of the selected industries. Furthermore, through the semi-structured interviews with investors described above, we obtained investors' perspectives on characteristics of ESG disclosures that may limit their usefulness to investors.

[8]An example of a single-issue report would be a document that focused solely on an electric utility's methane emissions and did not discuss other ESG factors.

[9]We considered quantitative disclosures to be inherently company-specific.

SEC Staff Efforts Related to the Disclosure of Material ESG Factors

To understand SEC's current regulatory framework for overseeing public companies' disclosures, we reviewed relevant laws and regulations, such as Regulation S-K and the Sarbanes-Oxley Act of 2002.[10] To review SEC's efforts related to ESG disclosures, we reviewed relevant SEC policies and procedures, such as internal guidance and SEC's interpretive releases to public companies on climate change and cybersecurity disclosures. We also reviewed SEC's 2012 and 2014 reports on climate change disclosures to the U.S. Senate Committee on Appropriations.[11] We reviewed additional internal SEC assessments on selected ESG-related topics to obtain information on steps taken by SEC to review ESG disclosures. To obtain information on how staff conduct reviews of annual 10-K filings and ESG information, we interviewed SEC officials from the Division of Corporation Finance and a nongeneralizable sample of 15 review staff from the same division (six attorneys, six accountants, and three office chiefs). For our sample, we judgmentally selected staff in industry groups in accordance with those selected for our sample of public companies and with varying levels of tenure at SEC. The information collected from this sample of SEC review staff cannot be generalized to the larger population of all SEC review staff.

Policy Options to Improve ESG Disclosures

To identify relevant policy proposals to improve ESG disclosures, we reviewed reports and public statements from investors, ESG standard-setting organizations, and other groups that provided their perspectives on the current state of ESG disclosures and potential policy proposals, including advantages and disadvantages of these proposals. For example, we reviewed letters submitted by various groups to SEC in response to its 2016 request for public comment on possible changes to regulation S-K, as well as press releases by large asset management

[10]Regulation S-K, 17 C.F.R. Pt. 229; Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, 116 Stat. 745 (2002).

[11]Senate Committee on Appropriations reports accompanying Financial Services and General Government Appropriations bills for fiscal years 2012 and 2013 directed SEC to submit reports to the Committee on the quality of public company disclosures about climate change-related matters. *See* S. Rep. No. 112-79, at 111 (2011); S. Rep. No. 112-177, at 109 (2012). SEC submitted to the Committee reports on climate change disclosures in 2012 and 2014, within the 90 day time frames specified in the reports.

firms. We conducted searches of government and academic literature for research on ESG disclosures from the previous 5 years. We searched the internet and various databases, such as ProQuest Newsstand Professional and Scopus. Using broad search terms, we identified articles related to our research objectives that provided useful context and discussion topics for interviews with market observers, investors, and companies. We also identified relevant reports and studies through investor and market observer interviews, by reviewing sources cited in documents we obtained, and through internet searches.

In addition, we reviewed reports and studies on international ESG disclosure requirements to identify and obtain information about relevant policy approaches implemented in other countries. We interviewed government officials in the United Kingdom and Japan and stock exchange and industry association representatives from South Africa to obtain their perspectives on the quality of ESG disclosures in their countries and the advantages and disadvantages of their current ESG disclosure laws and policies. We selected these countries for interviews because each had implemented one or more of the ESG policies that had been discussed as potential policy proposals by investors and market observers in the United States. Finally, we interviewed a nongeneralizable sample of 13 market observers selected to represent a range of stakeholders, including ESG standard-setting organizations, academics, and representatives of industry and investor groups, to obtain their perspectives on issues and policy options related to ESG disclosures.[12] We selected these market observers through studies and reports of companies ESG disclosures that identified leading observers with subject matter expertise and through referrals obtained during interviews for this study. We also used information obtained from our interviews with investors and companies to inform our analysis for this objective.

We conducted this performance audit from January 2019 to July 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our

[12]To characterize investor, company, SEC review staff, and market observer views throughout the report, we consistently defined modifiers to quantify the views of each group as follows: "nearly all" represents 80–99 percent of the group, "most" represents 50–79 percent of the group, and "some" represents 20–49 percent of the group. The number of interviews each modifier represents differs based on the number of interviews in that grouping: 14 institutional investors, 18 public companies, 15 SEC review staff, and 13 market observers.

findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Securities and Exchange Commission

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF THE CHAIRMAN

June 5, 2020

Michael Clements
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Clements:

Thank you for the opportunity to review the draft report, "Public Companies Disclosure of Environmental, Social, and Governance Factors and Options to Enhance Them." We appreciate your thorough, balanced and well-researched approach to this broad, complex and evolving topic. I believe the report will contribute significantly to the ongoing dialogue among public companies, their investors, and policy makers.

The Commission's approach to these issues is largely rooted in materiality. As you have made clear, our principles-based disclosure regime emphasizes materiality and is focused on requiring public companies to provide information that a reasonable investor would consider important in making informed investment and voting decisions. This approach is time-tested – over 85 years ago, Congress set forth materiality as the foundational principle underlying public company disclosure requirements. This approach has served investors and our capital markets well over the intervening decades as our economy and our markets have evolved and I firmly believe it can be trusted to serve us in the decades to come.

I appreciate your recognition of the ongoing commitment of the Commission and its staff to a range of disclosure matters that can be characterized as environmental, social or governance. I have personally spoken on these issues on a number of occasions.[1] As you note, the Commission and SEC staff have been working to clarify the disclosure obligations of public companies as they relate to matters falling into one or more of these categories for over a decade. In 2010 and 2018, the Commission issued guidance explaining how existing disclosure requirements apply to climate-related and cybersecurity matters, respectively. Division staff considers climate-related and cybersecurity issues, among other relevant issues, as part of the Division's selective review program and periodically conducts targeted disclosure reviews of companies for which it believes such a review will be most relevant.

[1] *See, e.g.*, Chairman Jay Clayton, *Remarks to the SEC Investor Advisory Committee* (Nov. 7, 2019), *available at* https://www.sec.gov/news/public-statement/clayton-remarks-investor-advisory-committee-110719; Chairman Jay Clayton, *Remarks to the SEC Investor Advisory Committee* (Dec. 13, 2018), *available at* https://www.sec.gov/news/public-statement/clayton-remarks-investor-advisory-committee-meeting-121318.

The Commission has also solicited public comment on a number of our disclosure requirements as part of our disclosure effectiveness initiative. These solicitations of comment have had tangible impacts on a number of rulemaking initiatives, including the adoption of final rules relating to pay ratio in 2015 and the recent proposed changes to address disclosures about human capital in 2019. Equally important to these efforts is our ongoing consideration of the actions of other regulatory bodies and standard setters, as well as the recommendations of a range of public interest groups and advisory committees.

I am committed to continuing the ongoing engagement of the Commission and its staff with market participants on disclosure issues generally, including matters that can be characterized as environmental, social or governance matters. Thank you for the consideration your staff has shown during this engagement and for the opportunity to share my views.

Sincerely,

Jay Clayton
Chairman

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Michael Clements at (202) 512-8678 or clementsm@gao.gov.

Staff Acknowledgments

In addition to the contact named above, John Fisher (Assistant Director), Katherine Carter (Analyst in Charge), Emily Bond, Rachel DeMarcus, David Dornisch, Justin Fisher, Christopher Lee, Elizabeth Leibinger, Efrain Magallan, Adam Martyn, Patricia Powell, Jena Sinkfield, Tyler Spunaugle, Winnie Tsen, and Jack Wang made key contributions to this report.

Appendix IV: Accessible Data

Data Tables

Accessible Data for The Four Environmental, Social, and Governance (ESG) Disclosure Topics GAO Reviewed with the Most and Least Company-Specific Disclosures, Generally Covering Data from 2018

ESG topics	Number of companies developing company-specific information	Number of companies disclosing (not company-specific)	Number of companies not disclosing
Manages potential conflicts of interest for board members	32	0	0
Incorporates shareholder input in board nominations	30	0	2
Adds new directors to its board	29	0	3
Promotes diversity and inclusion	27	1	4
Takes actions to prevent and address discrimination	13	4	15
Uses and protects consumer data	12	11	9
Describes obstacles to hiring	7	19	6
Identifies operations that might endanger human rights	5	1	26

Accessible Data for Figure 2: Number of Companies for Which Our Review Identified Disclosure on Certain Environmental, Social, and Governance (ESG) Factors and Topics, Generally Covering Data from 2018

ESG factors	Number of companies
Board accountability	32
Resource management	32
Data security	31
Personnel management	31
Climate change	30
Workforce diversity	29
Occupational health and safety	25
Human rights	22

Most disclosed topics	Number of companies
Company actions to avoid conflicts of interest among board members	32
Number of independent board members (metric)	32
How the company identifies and addresses data security risks	31
Company actions to incorporate shareholder preferences in board nominations	30
Company actions to add new directors to the board	29
How the company recruits and retains personnel	28
Company actions to promote diversity and inclusion	28

Least disclosed topics	Number of companies
Identification of company operations that might endanger human rights	6
Hours of health and safety training for employees (metric)	5
Number of human rights reviews of operations performed by the company (metric)	4
Number of data security incidents (metric)	2
Number of human rights infringements identified by the company (metric)	2

Accessible Data for Figure 6: Category of Disclosure on Certain Environmental, Social, and Governance (ESG) Topics of Selected Companies, Generally Covering Data from 2018

ESG topics	Number of companies disclosing company-specific information	Number of companies disclosing generic information	Number of companies not disclosuing
Company actions to avoid conflicts of interest among board members	32	0	0
Company actions to incorporate shareholder preferences in board nominations	30	0	2
Company actions to add new directors to the board	29	0	3
Company actions to promote diversity and inclusion	27	1	4
How the company manages risks and opportunities related to energy or water resource management	26	1	5
How the company manages climate-related risks and opportunities	25	2	5
How the company recruits and retains personnel	24	4	4
Company actions to protect human rights	22	0	10
How the company manages occupational health and safety risks	21	4	7
How the company identifies and addresses data security risks	18	13	1
Risks and opportunities the company has identified related to energy or water resource management	18	7	7
Climate-related risks and opportunities the company has identified	17	10	5
Company actions to prevent and address discrimination	13	4	15
How the company uses and protects consumer data	12	11	9
Obstacles that might limit the company's ability to hire the talent it needs	7	19	6
Identification of company operations that might endanger human rights	5	1	26

Agency Comment Letter

Accessible Text for Appendix II Comments from the Securities and Exchange Commission

Page 1

June 5, 2020

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Director

Financial Markets and Community Investment

U.S. Government Accountability Office

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Washington, DC 20548

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Jay Clayton

Chairman

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