

The Business of Climate Change – Disclosure of “Stranded Assets”

Jan 28, 2014

Reading Time : **1 min**

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The theory underlying this petition for the FASB to adopt disclosure requirements is straightforward.

1. Publicly-traded companies assign value to their fossil fuel reserves on the assumption the reserves can be combusted for energy recovery.
2. Governments are adopting regulatory measures to reduce carbon emissions from the combustion of fossil fuels.
3. Publicly-traded companies should disclose to investors the expected financial impacts of government restrictions on the combustion of fossil fuels.

This would be fine if the world were a seminar. But, the number and scope of the uncertainties inherently buried in any evaluation would render disclosure functionally meaningless. For example, companies would have to assess and assign a likelihood to such factors as:

- When regulatory requirements restricting fossil fuel use will be adopted.
- What the content of those restrictions will be.
- Will some uses (e.g., electricity generation) be restricted more stringently than others (e.g., transportation)?
- Which countries will agree to adopt such restrictions and which will not; and
- Which country's restrictions will apply – the country in which the reserves are located, the country in which the raw fuel is refined, the country in which the final product is sold?

Of course, companies have in recent years included qualitative discussions of possible impacts of new regulatory requirements restricting carbon emissions. The step to a quantitative discussion, while certainly a laudable aspiration, remains to be achieved. To provide investors an opportunity to “pass judgment,” any disclosure would have to identify the assumptions underlying the disclosure and, perhaps, justify the selection of assumptions. Even then, while available models likely could produce precise figures to be included in disclosure documents, the uncertainties surrounding the accuracy of such figures severely discount any value added by the disclosure and could possibly create future hooks for securities litigation alleging false or misleading disclosures.

FASB should pass on the petition.

Categories

Environmental

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