Coastal Flood Resilience Project

WHITE PAPER

Corporate Disclosure of Coastal Flood Risk
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The *Coastal Flood Resilience Project* is a coalition of organizations working for stronger programs to prepare for coastal storm flooding and rising sea level in the United States. This *White Paper* recommends that the Securities and Exchange Commission strengthen and expand existing reporting of risks to physical assets as a result of coastal storm flooding and sea level rise and make such reporting part of a broader mandatory reporting requirement related to climate change.

Problem Statement

Coastal storms are a major risk to life and property and a warming climate is causing an increase in the number of the strongest storms. These storms bring more extensive coastal flooding, higher storm surges, and increased rainfall. Research indicates that intense storms are slowing down and thus raining on a given place for longer. Even as storms move more slowly, they intensifying more rapidly, making their landfall harder to predict and more likely to result in major damage and loss of life.

Sea level rise around the globe is likely to be 3 to 4 feet by 2100 but may be as high as 6 to 8 feet if efforts to control emissions of greenhouse gases falter. Sea level rise along parts of the American coast will be as much as 30 percent greater than the global average due to factors such as ocean currents and land subsidence. In the short term, this will result in more "sunny day flooding" during high tides and larger surges and greater flooding during storms. In the long term, sea level rise will lead to permanent inundation of major portions of the American coast.

Many of the corporations reporting to the Commission own or manage physical assets that are located in areas at risk of damage or destruction due to storm surges. Storm damage to coastal assets can cause interruption of business processes and release of harmful substances to the environment in addition to the costs of repair or replacement of assets. The costs of recovering from storm damage can have a significant negative impact on the financial condition of a reporting entity. Because of these significant financial risks, and the public health impacts of the release of harmful substances, reporting corporations must be required to fully report risks posed to assets by more severe storms to shareholders and the public.

In addition, some severe storms can represent a risk to multiple assets within a sector and damage to these assets can pose a threat to the larger American economy. For example, oil refineries along the Gulf of Mexico are at risk and shutdown or damage to these facilities can have wide economic repercussions. In 2017, Hurricane Harvey limited refinery operations and *The Wall Street Journal* reported "gasoline price surges to a two year high at the pump" that spread economic pain "throughout the nation." In 2005, Hurricanes Katrina and Rita devasted the Gulf coast "shutting down 24% of U.S. refining capacity, causing a significant drop in gasoline production and resulting in a 50% jump in the weekly average spot price of conventional gasoline production."

Corporate assets in coastal areas, as well as roads, power supply, and other services that support these assets, are also at risk of permanent inundation in the coming decades as sea level rises. Asset owners will increasingly need to invest in asset protection measures or relocate the assets. The eventual relocation of these facilities and supporting infrastructure can be a significant long-term cost to reporting entities. These costs have implications for future profitability of corporations and must be disclosed to shareholders and the public.

Recommendations

The Securities and Exchange Commission should make reporting of coastal flood and sea level rise risk to physical assets mandatory and should clearly describe the geographic coverage of the required reporting. Reporting standards should be determined by the Commission with input from all interested parties rather than by an industry-led process.

More specifically, mandatory reporting should apply to those corporate physical assets:

- located in the 100-year coastal floodplain mapped by the Federal Emergency Management Agency;
- located in an area projected to be inundated by rising sea level by 2100 under the Intermediate-High Scenario described by the National Oceanic and Atmospheric Administration in its recent sea level rise scenarios report (i.e., assets currently located @5 feet above sea level, see Table 5); or
- located outside the risk areas described above but directly supplied by infrastructure (e.g., roads, power lines, or pipelines) that are in the risk areas and are owned or managed by the corporation or by another entity.

Reporting on risks to physical assets in areas subject to storm flooding and rising sea levels should include:

- the nature of measures to protect the asset or assets and any infrastructure directly supporting the asset (e.g., berms, elevation of critical equipment);

- plans to prevent release of harmful substances to the environment in the event of storm flooding, including impacts on minority or low-income communities, including any plans prepared under the Emergency Planning and Community Right-to-Know-Act;

- plans to repair damage to assets and supporting infrastructure due to storm flooding;

- plans, if any, for relocation of assets in areas subject to storm flooding and rising seas to higher ground; and

- corporate strategies for financing and managing risk within the governance structure and tracking implementation of strategies with clear metrics.

The climate reporting mechanism developed by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) is an important step toward improved reporting of financial risk by corporations around the globe. A key strength of the TCFD framework is that it allows shareholders to evaluate climate related performance of corporations around the world and make investment decisions based on this information. The TCFD framework also links assessment of risks to corporate strategic planning.

Finally, meaningful enforcement of mandatory climate change reporting is essential to allowing shareholders to evaluate corporate climate-related performance and to make well-informed investment decisions. The Commission should:

- make enforcement of climate related disclosures a priority and clearly identify individual registrant noncompliance;

- require CEO certification of reports and, where needed to supplement internal reviews, third party audits;

- commit to public release of the climate change reports and supporting information provided by corporations; and

- prepare an annual report providing analysis of climate related reporting and performance.

The *Coastal Flood Resilience Project* is a coalition of organizations working for stronger programs to prepare for coastal storm flooding and rising sea level in the United States. The views expressed in this *White Paper* are those of the contributors and do not represent the views or endorsements of their organizations.

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