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Highlights

Highlights of GAO-04-808, a report to congressional requesters

July 2004

ENVIRONMENTAL DISCLOSURE

SEC Should Explore Ways to Improve Tracking and Transparency of Information

Why GAO Did This Study

To help investors make informed decisions, the Securities and Exchange Commission (SEC) enforces federal securities laws requiring companies to disclose all information that would be considered important or "material" to a reasonable investor, including information on environmental risks and liabilities, in reports filed with SEC. To monitor companies' disclosures, SEC reviews their filings and issues comment letters requesting revisions or additional information, if needed. This report addresses (1) key stakeholders' views on how well SEC has defined the requirements for environmental disclosure, (2) the extent to which companies are disclosing such information in their SEC filings, (3) the adequacy of SEC's efforts to monitor and enforce compliance with disclosure requirements, and (4) experts' suggestions for increasing and improving environmental disclosure.

What GAO Recommends

GAO is recommending that SEC take steps to improve the tracking and transparency of information related to its reviews of companies' filings, and to work with the Environmental Protection Agency (EPA) to explore ways to take better advantage of EPA data relevant to environmental disclosure. SEC agrees with GAO's recommendations and is taking action by, for example, making comment letters and company responses available on its Web site, beginning with August 2004 filings.

www.gao.gov/cgi-bin/getrpt?GAO-04-808.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John B. Stephenson at (202) 512-3841 or stephensonj@gao.gov.

What GAO Found

Key stakeholders disagree about how well SEC has defined the disclosure requirements for environmental information. Some stakeholders who use companies' filings, such as investor organizations and researchers, maintained that the requirements allow too much flexibility and are too narrow in scope to capture important environmental information. Other stakeholders, primarily those who prepare or file reports with SEC, said that the scope of the current requirements and guidance is adequate and that companies need flexibility to accommodate their individual circumstances.

Little is known about the extent to which companies are disclosing environmental information in their filings with SEC. Determining what companies should be disclosing is extremely challenging without access to company records, considering the flexibility in the disclosure requirements. Despite strong methodological limitations, some studies provide tentative insights about the amount of environmental information companies are disclosing and the variation in disclosure among companies. However, the problem in evaluating the adequacy of disclosure is that one cannot determine whether a low level of disclosure means that a company does not have existing or potential environmental liabilities, has determined that such liabilities are not material, or is not adequately complying with disclosure requirements.

The adequacy of SEC's efforts to monitor and enforce compliance with environmental disclosure requirements cannot be determined without better information on the extent of environmental disclosure. In addition, SEC does not systematically track the issues raised in its reviews of companies' filings and thus, does not have the information it needs to analyze the frequency of problems involving environmental disclosure, compared with other types of disclosure problems; identify trends over time or within particular industries; or identify areas in which additional guidance may be warranted. Over the years, SEC and EPA have made sporadic efforts to coordinate on improving environmental disclosure; currently, EPA periodically shares limited information on specific, environment-related legal proceedings, such as those involving monetary sanctions.

Using a Web-based survey of 30 experts that use disclosure information, including investor organizations and financial analysts among others, GAO obtained suggestions for increasing and improving environmental disclosure in three broad categories: modifying disclosure requirements and guidance, increasing oversight and enforcement, and adopting nonregulatory approaches to improving disclosure. Some of the experts offered comments about why particular proposals are unnecessary or unworkable. GAO also sought the views of representatives of companies that file reports with SEC, who questioned the value and feasibility of some suggestions.