



U.S. HOUSE COMMITTEE ON FINANCIAL SERVICES
– CHAIRWOMAN MAXINE WATERS –
SECTION-BY-SECTION OF H.R. 1187, CORPORATE GOVERNANCE
IMPROVEMENT AND INVESTOR PROTECTION ACT,
INTRODUCED BY REP. VARGAS (CA-51)

Section 1. Short Title

- This section establishes the short title of the bill as the “Corporate Governance Improvement and Investor Protection Act.”

Title I – ESG Disclosure Simplification

Section 101. Short Title.

- This section states that this title may be cited as the “ESG Disclosure Simplification Act of 2021.”

Section 102. Findings.

- Section 102 states that Congress finds that the SEC has broad authority to require disclosure of information that is in the interest of, or is material to, investors; the SEC does not currently require companies to adhere to standards for disclosing ESG matters; investors have reported that voluntary disclosure of ESG metrics are inadequate; a rule requiring the standardized reporting of ESG disclosures is in the interest of investors; and that ESG matters are material to investors and the SEC must establish standards for disclosing ESG matters.

Section 103. ESG Disclosures.

- Subsection (a) of this Section amends Section 14 of the Securities Exchange Act of 1934 (15 U.S.C. 78n) by adding a new subsection (k). The new subsection (k) would require issuers that have registered securities, or that file annual reports, to disclose in any proxy or consent solicitation material for an annual shareholder meeting: a clear description of the link between environmental, social, and governance (ESG) metrics and the issuer’s long-term business strategy; and any process the issuer uses to determine the impact of these ESG metrics on its long-term business strategy.
- Subsection (b)(1) of this Section would require the Securities and Exchange Commission to promulgate rules to define and require the disclosure of ESG metrics.
- Subsection 2(b)(2) of this bill would require that the Sustainable Finance Advisory Committee created by the amendments contained in Section 3 of this bill to submit to the SEC recommendations regarding what ESG metrics the SEC should require issuers to disclose within 180 days of its first meeting.
- Subsection (b)(3) of this Section would establish that ESG metrics defined by the SEC are de facto material for disclosure purposes.
- Subsection (b)(4) of this Section would allow the SEC to incorporate any internationally recognized, independent, multi-stakeholder environmental, social, and governance disclosure standards.
- Subsection (b)(5) of this Section would allow the SEC to incorporate any internationally recognized, independent, multi-stakeholder environmental, social, and governance disclosure standards to be included in a notes section of the filing.
- Subsection (b)(6) of this bill would allow the SEC to use a phased approach for small issuers and to determine the criteria used to determine when an issuer qualifies as a small issuer.

Section 104. Sustainable Advisory Committee.

- This section would amend section 4 of the Securities Exchange Act of 1934 (15 U.S.C. 78d) by adding a new subsection (k), which would establish a permanent advisory committee to be called the Sustainable Finance Advisory Committee (SFAC), and would set forth the duties and membership of the Committee.
- Within 18 months after SFAC's first meeting, the it would be required to issue a report that identifies challenges and opportunities for investors associated with sustainable finance and recommend policy changes that facilitate the flow of capital towards sustainable investments, particularly environmentally sustainable investments. SFAC would also be required to advise the SEC on sustainable finance and communicate with interested individuals and entities.
- SFAC would consist of no more than 20 members, who would each serve for a single four-year term. Without representing single individuals or entities, each member will represent types of individuals and entities with similar interests in sustainable finance, such as: experts on sustainable finance; operators of financial infrastructure; entities that provide analysis, data, or methodologies that facilitate sustainable finance; insurance companies, pension funds, asset managers, depository institutions, credit unions, or other financial institutions.
- The SEC would be required to publish the criteria utilized for selection of members and to solicit applications on the SEC's website and in the Federal Register. Each SEC Commissioner would select an equal number of members of the Committee.
- Members of the Committee would not be permitted receive pay for their position on the Committee but may receive travel or transportation expenses.
- The name of each member and the types of individuals and entities the Member represents would be required to be published on the SEC's website.
- The SEC's Office of the Investor Advocate staff would support SFAC. Funds necessary to finance costs associated with these staff are authorized to be appropriated.
- The term 'sustainable finance' is defined under the bill as the provision of finance with respect to investments taking into account environmental, social, and governance considerations. The SEC would be required to publish a response to the Committee report within 6 months of the report's submission to the Commission.

Title II – Shareholder Political Transparency

Section 201. Short Title.

- This section states that this title may be cited as the Shareholder Political Transparency Act of 2021.

Section 202. Findings.

- Section 202 asserts that Congress finds that corporations make significant political contributions and expenditures that directly or indirectly influence elections and political causes, and that these types of decisions are often made by corporate boards and executives rather than shareholders. Section 202 further asserts that because corporations are obligated to conduct business for the best interest of their shareholders, shareholders have a right to know how corporate management is spending company funds for political contributions and expenditures, and that corporations should be held accountable in making political contributions or expenditures affecting federal governance and policy.

Section 203. Reporting Requirements.

- Section 203 of this bill would amend Section 13 of the Securities Exchange Act of 1934 by inserting reporting requirements related to certain political expenditures.
- Section 203 defines the term “expenditure for political activities” as an expenditure by a person expressly advocating the election or defeat of a clearly identified candidate, and that is not made in concert or cooperation with, or at the request or suggestion of, such candidate, the candidate’s authorized political committee, or their agents, or a political party committee or its agents; an electioneering communication if it were a broadcast, cable, or satellite communication; and dues or other payments to trade associations and other 501(c) organizations, or could be reasonably transferred to another association or organization for these purposes.
- Section 203 expressly excludes from the definition of “expenditure for political activities”: direct lobbying efforts through registered lobbyists or hired by the issuer; communications by an issuer to its shareholders and executive or administrative personnel and their families; and the establishment and administration of contributions to a separate segregated fund to be utilized for political purposes by a corporation.
- Section 203 expressly excludes registered investment companies from its definition of issuer.
- Section 203 would require the SEC to amend reporting rules within 180 days of the enactment of this bill to require issuers to quarterly report that includes: a description of any expenditure for political activities made during the preceding quarter; the date of each expenditure for political activities; the amount of each expenditure for political activities; whether the political expenditure was made in support or opposed to a candidate, the name of the candidate and office sought, and the political party affiliation of the candidate; and the name or identity of trade associations or organizations. These reports would be required to be made public on the SEC’s website and on EDGAR.
- Section 203 would require the SEC to issue a rule within 180 days of the enactment of this bill requiring each issuer to include in the issuer’s annual report to shareholders: a summary of each political expenditure in excess of \$10,000, and for political activities for a particular election if the expenditure is in excess of \$10,000; a description of the nature of the political activity the issuer intends to make in the forthcoming year; and the total amount of expenditures intended to be made by the issuer for the forthcoming year.

Section 204. Reports.

- Section 204 would require the SEC to conduct an annual assessment of compliance of this Act and submit to Congress its findings, and requires the GAO to periodically evaluate the effectiveness of the oversight by the SEC of the reporting and disclosure requirements set forth in this bill.

Title III – Greater Accountability in Pay

Section 301. Short Title

- This section states that this title may be cited as the “Greater Accountability in Pay Act of 2021”

Section 302. Pay Raise Disclosures.

- Section 302 would amend Section 13 of the Securities Exchange Act of 1934 by adding a new subsection (s) that requires companies, other than emerging growth companies, to file annual reports with the SEC under this section or section 15(d) to report the following information related to pay raises: (1) the percentage increase in the median of the annual total compensation of all executive officers over the last completed fiscal year; (2) the percentage increase in the median of the annual total compensation of all employees, excluding executive officers, over the last completed fiscal year; (3) the ratio of the

percentage described in (1) to the percentage described in (2); (4) a comparison of the percentage increase described in paragraph (1) to the percentage change in the Consumer Price Index for All Urban Consumers published by the Department of Labor; (5) the percentage increase described in paragraph (2) to the percentage change in the Consumer Price Index for All Urban Consumers published by the Department of Labor.

Title IV – Climate Risk Disclosure

Section 401. Short Title.

- This section states that this title may be cited as the “Climate Risk Disclosure Act of 2021”

Section 402. Sense of Congress.

- Section 402 sets forth the sense of Congress. Paragraph (1) states that continued inaction in addressing climate change poses a significant and increasing threat to the growth and stability of the United States. Paragraph (2) states that many sectors of the economy of the United States and American businesses are exposed to multiple channels of climate-related risk, which include exposure to: the physical impacts of climate change; economic disruptions and security threats that result from these physical impacts; the transition impacts that result as the global economy transitions to a clean and renewable energy, low-emissions economy; and actions by Federal, State, Tribal, territorial and local governments to limit the worst effects of climate change by limiting the global average surface temperature rise to 1.5 degrees Celsius above pre-industrial levels.
- Paragraph (3) states that Congress finds that assessing the potential impact of climate related risks on national and international financial risks that climate change presents to their investors, lenders, and insurers is an urgent concern. Paragraph (4) states that companies have a duty to disclose financial risks that climate change presents to their investors, lenders, and insurers. Furthermore, Paragraphs (5) through (9) state that the Securities and Exchange Commission has a duty to promote a risk-informed securities market which includes standardized climate change risk and opportunity disclosure that is useful, consistent, reliable and clear for decisionmakers in annual reports to the Commission will increase transparency with respect to risk accumulation and exposure in financial markets.

Section 403. Disclosures Related to Climate Change

- Section 403 adds a new subsection to section 13 to the Securities Exchange Act of 1934. Paragraph (1) of the new subsection provides for a number of new definitions: “1.5 degree scenario”; “appropriate climate principals;” “baseline scenario,” “carbon dioxide equivalent;” “climate change;” “commercial development of fossil fuels;” “covered issuer;” “direct and indirect greenhouse emissions;” “fossil fuel reserves;” “greenhouse gas;” “greenhouse gas emissions;” “physical risks;” “social cost of carbon;” “transition risks;” and “value chain.”
- Paragraph (2)(A) of the new subsection states that Congress finds the short-, medium-, and long-term financial and economic risks and opportunities related to climate change and the national and global reduction of greenhouse gas emissions constitute information that issuers may reasonably expect to affect shareholder decisions making and, as such, should regularly identify, evaluate, and disclose such information to investors and relevant regulators.
- Paragraph (2)(B) of the new subsection requires each covered issuer to identify and evaluate physical and transition risks posed by climate change, along with their potential impact, as well as provide a description of any established corporate governance processes and structures to identify, assess, and manage climate-related risks
- Paragraph (3) of the new subsection explicitly requires a covered issuer to disclose in its annual report information regarding the identification and evaluation of potential financial impacts of, and any risk

management strategies relating to: physical and transition risks the covered issue faces due to climate change; a description of any established corporate governance processes and structures to identify, assess, and manage climate-related risks; a description of the actions the covered issuer is taking to mitigate the identified risks; a description of the resilience of any strategy the covered issuer has for addressing these risks; and description of how climate risk is incorporated into the overall risk management strategy of the covered issuer.

- Paragraph (4) of the new subsection establishes a rule of construction explicitly stating an issuer is not precluded from including information in its annual report not explicitly reference in this bill.
- Paragraph (5) of the new subsection requires the Commission to engage in a rulemaking within 2 years after the date of the enactment of this bill to issue rules with respect to the information that a covered issuer is required to disclose pursuant to this bill.
- Paragraph (6) establishes formatting requirements for covered issuers when disclosing the information required to be disclosed in this bill.
- Paragraph (7) requires the Commission to periodically update the rules issued under this subsection.
- Paragraph (8) requires the Commission, to the extent practicable, to compile the information required to be disclosed pursuant to this bill and make publicly available on the Commission’s website on an annual basis.
- Paragraph (9) requires the Commission to conduct an annual compliance assessment pursuant to the requirements of this subsection and to submit to the appropriate Congressional committees a report with the results of each assessment and that this report should be made publicly available. It also requires the Comptroller General of the United States to periodically evaluate and report to the appropriate Congressional committees on the Commission’s effectiveness on carrying out and enforcing this subsection.

Section 404. Backstop.

- Section 404 states that if the Securities and Exchange Commission has not issued rules pursuant to the requirements of this bill within two years of its enactment, a covered issuer may be deemed to be in compliance with this bill if the covered issuer provides a disclosure that satisfies the recommendations of the Task Force on Climate-Related Financial Disclosures of the Financial Stability Board as reported in June 2017, or any successor report.

Section 405. Authorization of Appropriations.

- Section 405 authorizes funds to be appropriated to the SEC to carry out this title.

Title V – Disclosure of Tax Havens and Offshoring

Section 501. Disclosure of Tax Havens and Offshoring Act.

- This section states that this title may be cited as the “Disclosure of Tax Havens and Offshoring Act.”

Section 502. Country-by-Country Reporting

- This section would amend Section 13 of the Securities Exchange Act to add a new subsection. Paragraph (1) of the new subsection provides for a number of new definitions: “constituent entity”; “covered issuer”; and “tax jurisdiction.”
- Paragraph (2) of the new subsection would require each covered issuer in its annual report to disclose information related to the constituent entity, and each tax jurisdiction in which one or more of the

constituent entities is resident. This information includes the constituent entity's complete legal name; the constituent entity's tax residence; the jurisdiction in which constituent entity is organized or incorporated; the tax identification number; the main business activity; revenues generated and not generated from transactions with other constituent entities; profit or loss before income tax; total income paid on a cash basis to all tax jurisdictions; total accrued tax expense recorded on taxable profits or losses; total number of employees on a full-time equivalent basis; and net book value of tangible assets.

- Paragraph (2) of the new subsection would require this information is to be provided in aggregated or consolidated form for any constituent entity or entities that have no tax jurisdiction residence, and if a constituent entity is an owner of a constituent entity with no jurisdiction of tax residence, the owner's share of such entity's revenue and profits shall be aggregated or consolidated with the information for the owner's tax jurisdiction of residence. Paragraph (2) would further require each covered issuer to submit this report to the SEC on or before the covered issuer's tax filing due date in tax jurisdiction in which the covered issuer's multinational enterprise group is resident. The SEC would be required to issue regulations consistent with United States or international standards established for country-by-country reporting.
- The SEC would be required to issue a proposed rule within 270 days of after the enactment of this bill and finalize a rule no later than 1 year after the enactment of this bill. The information required by this section is to be provided in a machine-readable format as prescribed by the SEC and is to be made available to the public online.
- The requirements of this bill would be effective 1 year after the Commission issues a rule under this section.