

Companies across many different economic sectors have announced ambitious goals like being climate neutral by 2050. Commitments on ESG – Environmental, Social, and Corporate Governance — are a growing corporate emphasis. Talk is cheap, however. How can we know they're serious? How can we even be sure that the information they release about their environmental performance is true? There are not easy questions, but there are steps that companies could take if they want to prove they "mean business" with their pledges.

One approach is illustrated by a recent [deal](#) made by BlackRock, the world's largest asset manager. BlackRock has a \$4.4 billion line of credit with a group of banks. The terms of the line of credit will make BlackRock's borrowing costs go up if it fails to meet its environmental targets or targets for other issues such as increasing diversity. BlackRock hasn't had to make much use of its line of credit, so this may not be a powerful incentive standing alone. However, this arrangement does provide some added credibility to BlackRock's pledges. Indeed, the very fact that BlackRock has gone to the trouble of setting up this arrangement is a sign of commitment. It's not hard to imagine that other companies might follow suit.

Internal governance changes could be another way of signaling commitment. Adding environmental watchdogs to the company's board of directors is one way of locking in commitments. Some boards already have former EPA officials or even, in at least one case, an environmental law professor. I could imagine companies creating standing committees on their boards dedicated to their environmental performance.

One continuing question is how to monitor ESG performance. A basic point is that companies need to specify when they set goals like "carbon neutrality" just exactly what they mean. Otherwise, we don't really know how to gauge their progress. In terms of assuring the reliability of what they tell the public about their progress, one possible mechanism is outside auditing. This could easily become a function performed by major accounting firms. They could do environmental audits as well as financial ones. To make that work, however, we would need to supplement the current Generally Accepted Accounting Principles to include rules for accounting for carbon emissions and other environmental impacts.

Another option would be to use federal securities laws to ensure the reliability of environmental disclosures. The securities laws generally prohibit the release of false or misleading information. There's a catch, however: the information has to be "material" financially. Environmental information may not qualify because the

immediate effect on the company's financial health is too small. A possible workaround could be a new type of security whose value would turn on environmental performance. This could take the form of green bonds or a class of equity whose share of profits would depend on the company's environmental performance. Environmental information would definitely be material to those investors, creating the possibility of lawsuits if the company released false or misleading information.

Finally, unfair trade laws could be deployed to prevent companies from "cooking the books" in terms of environmental information. This strategy could involve the Federal Trade Commission. The FTC has jurisdiction over consumer fraud or deception claims, and information about a company's sustainability could well matter to consumers. Alternatively, state consumer protections laws could be used, although those laws are more robust in some states than others.

For now, companies may feel that it is enough to make pledges without worrying too much about proving their credibility. As these pledges become more common, there may be more pressure for companies to show that their pledges are more than hot air. There may also be increasing threats of litigation where companies seem to fall short in their performance or provide distorted information about their progress. For those reasons, it's going to be increasingly important to ensure that climate pledges are more than hot air.