

Carbon Emission Disclosure and Greenwashing Risk in the Capital Market

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Abstract

Amid global warming and climate change, it is important for individuals and enterprises to reduce their carbon emissions. Adequate information is necessary to facilitate different stakeholders (from the government and corporate managers to investors, consumers and financial firms) to monitor an enterprise's carbon emission performance and any action to face global warming. There arises the need for public disclosure of carbon emissions and other climate-related information. This is duly reflected in the reporting obligation of some firms to report their carbon emission data to the Ministry of Environment and the obligation to disclose relevant information in the capital market, the latter of which is the focus of this article. However, given the self-interest of enterprises and transaction costs of verifying carbon emissions and preparing disclosure documents, this article hypothesizes that public disclosure of carbon emission-related information will present a serious greenwashing risk, defined broadly to cover situations where a company offers wrong, misleading, inaccurate or selective information in order to make it looked more environment-friendly. The problem could be exacerbated by vague and ambiguous items that enterprises have to disclose. To test this hypothesis, this article analyses past disclosure documents of listed companies in Taiwan between financial years 2011 and 2021 in the Market Observation Post System, operated by the Taiwan Stock Exchange. This article finds that there were not many firms voluntarily making carbon emission disclosure in or before 2020 in the capital market. The finding may lend support

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the financial regulator's decision to impose a mandatory disclosure regime from 2023 in Taiwan. In addition, the average length of disclosure is relatively short (indicating a lack of content) and there are significant inconsistencies regarding the ways companies disclose carbon emission data. Some firms did not even verify their disclosed data by a credible third-party institution. There is also a lack of consistent information on third-party verification of carbon emissions. Moreover, qualitative answers tend to be vague and cannot be verified. It is also difficult to compare the descriptions and information provided by companies in disclosure documents. The findings of this article suggest that there could be serious greenwashing risk from past practices. The updated disclosure form in 2022 by the financial regulator does not seem to make huge improvements. Therefore, greenwashing risk may persist under the current regulatory framework as in 2023. This article argues that regulators should issue further guidelines to substantiate and standardize the contents of disclosure documents. In particular, the regulator should focus first on quantifiable data (such as carbon emission) and reconsider the target audience of disclosure of carbon emission data and information related to climate change in order to provide more useful, meaningful and comparable information to the market and to reduce the chance that carbon disclosure regime is deployed as a greenwashing tool by firms in Taiwan.

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