



CERES | ENVIRONMENTAL DEFENSE FUND

January 2010

SEC: COMPANIES MUST DISCLOSE CLIMATE RISKS, OPPORTUNITIES

Disclosure is the Cornerstone of Federal Securities Law. The longstanding requirement that publicly traded corporations disclose material information to their shareholders is based on a simple proposition: only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decisions. Efficient, fair markets depend on the availability of information on corporate strategy, performance, and policies to give investors the insights they need to make rational investment decisions.

Climate Change is a Significant Hidden Risk in Portfolios. Just as subprime mortgage risks were inadequately disclosed, the risks and opportunities of climate change are not accounted for in companies' business plans. The EPA, states and regional initiatives are carrying out policies to slow, stop, and reverse the growth in dangerous greenhouse gases while forging a vibrant clean energy economy, and Congress will soon follow suit. Investors have a right to know which companies are planning for a clean energy future and which are lagging behind.

Climate Change is Important to Investment Decisions. In 2007, the nation's largest institutional investors, state treasurers, Ceres, Environmental Defense Fund and other groups petitioned the SEC to issue interpretive guidance clarifying that material climate-related information must be disclosed. See www.sec.gov/rules/petitions.shtml (File No. 4-547). In June 2009, 41 members of the Investor Network on Climate Risk, representing \$1.4 trillion of assets under management, again asked the Commission to improve disclosure of climate risks and other material environmental risks.¹

New Policies Make Climate Risks Material. Today, over 10,000 facilities are required to disclose greenhouse gas emissions under new federal reporting rules; more than 1000 mayors are carrying out local reductions in greenhouse gases; over two dozen states have mandates for cleaner electricity generation portfolios; nearly 20 states have greenhouse gas emissions targets; bipartisan regional initiatives are being implemented and developed to reduce greenhouse gases in the Northeast and Mid-Atlantic, Midwest and West; in June the U.S. House of Representatives passed the American Clean Energy and Security Act to reduce greenhouse gases nationwide; and large emitters face potential liability under two federal court of appeals decisions.

Current Disclosure of Climate Risks and Opportunities is Inconsistent and Inadequate. Analyses of 10-K filings repeatedly find widespread disclosure deficiencies. In *Reclaiming Transparency in a Changing Climate*, the Center for Energy and Environmental Security, Ceres and Environmental Defense Fund reviewed over 6,000 SEC filings by S&P 500 companies from 1995 to 2008, finding that 75% of annual reports filed in 2008 failed to even mention climate change, and only 5% articulated a strategy for managing climate-related risks.

State Law Enforcement and Regulatory Officials Have Taken Corrective Action. In 2007, the New York Attorney General subpoenaed five major energy companies for information on whether climate disclosures in SEC filings were adequate; settlements on improving disclosure have been reached with three of the companies. In 2009, the National Association of Insurance Commissioners unanimously approved a mandatory requirement for insurers with annual premiums of \$500 million or more to disclose climate risks beginning in May 2010.

Climate Science Compels Policy Action. The Intergovernmental Panel on Climate Change's Fourth Assessment Report found: "Warming of the climate system is unequivocal, as is now evident from observations of increases in global average air and ocean temperatures, widespread melting of snow and ice, and rising global average sea level."

Investors and other groups who have petitioned the SEC to improve climate risk disclosure in SEC filings include:

British Columbia Investment Management Corporation (Canada)
California Public Employees' Retirement System
California State Controller John Chiang
California State Teachers' Retirement System
California State Treasurer Bill Lockyer
Ceres
Connecticut State Treasurer Denise L. Nappier / Connecticut Retirement Plans and Trust Funds
Environmental Defense Fund
F&C Management
Florida Chief Financial Officer Alex Sink
Friends of the Earth
Former Kentucky State Treasurer Jonathan Miller
Laborers' International Union of North America
Maine State Treasurer David G. Lemoine

Maryland State Treasurer Nancy K. Kopp
The Nathan Cummings Foundation
New Jersey State Investment Council
Former New York City Comptroller William C. Thompson, Jr.
New York State Attorney General Andrew M. Cuomo
New York State Comptroller Thomas P. DiNapoli
North Carolina State Treasurer Janet Cowell
Former North Carolina State Treasurer Richard Moore
Oregon State Treasurer Ben Westlund
Former Oregon State Treasurer Randall Edwards
Pax World Management Corporation
Rhode Island General Treasurer Frank T. Caprio
Vermont State Treasurer Jeb Spaulding

Ceres is a leading coalition of investors, environmental groups and other public interest organizations working with companies to address sustainability challenges, such as global climate change. Ceres coordinates the Investor Network on Climate Risk (INCR), a group of 80 institutional investors and investment firms with collective assets totaling more than US\$8 trillion. For more information, visit www.ceres.org and www.incr.com.

Environmental Defense Fund, a leading national nonprofit organization, represents more than 500,000 members. Since 1967, Environmental Defense Fund has linked science, economics, law and innovative private-sector partnerships to create breakthrough solutions to the most serious environmental problems. For more information, visit www.edf.org.

ⁱ <http://www.ceres.org/Page.aspx?pid=1106>