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CLIMATE RISK DISCLOSURE UNDER THE NATION'S SECURITIES LAWS

An Effective Marketplace Requires Full Disclosure of Climate-Related Risks and Opportunities

Ceres and Environmental Defense joined with some of the nation's largest institutional investors, the New York Attorney General, and major asset management firms to ask the Securities and Exchange Commission to clarify that publicly traded firms must disclose risks and opportunities related to climate change under existing law. The investors represent over \$1.5 trillion in assets under management.

Scientific, legal, and regulatory developments make it unavoidably clear that the risks and opportunities many corporations face in connection with climate change fall squarely within the category of material information that is required to be analyzed in many corporate filings. Efficient, fair markets depend on the timely disclosure of material risks, and investors need disclosure of physical risks, regulatory risks and opportunities, and legal proceedings relating to climate change to make informed investment decisions.

On September 18, 2007, Ceres, Environmental Defense and twenty co-petitioners submitted two requests to the Securities and Exchange Commission:

- 1) A petition detailing the significant risks posed by climate change and asking the Commission to clarify that existing law requires disclosure of material climate risks, and
- 2) A letter asking the Division of Corporation Finance to immediately examine the adequacy of disclosures concerning climate risk when reviewing registrants' 10-K and 10-Q filings.

Current disclosure is inconsistent and inadequate.

- *Exxon Mobil Corporation:*
 - Mentioned climate change in one perfunctory reference in the 126 pages of its 2006 10-K filing with the SEC, and otherwise did not mention global warming, greenhouse gases or carbon dioxide.¹
 - Is the largest petroleum and petrochemical enterprise in the world,² with a market capitalization of \$473 billion as of September 11, 2007.
- *Allstate Corporation:*
 - Did not mention climate change, global warming, greenhouse gases, or carbon dioxide in the 345 pages of its 2006 10-K filing.³
 - Is the largest publicly held personal lines insurer in the U.S.,⁴ with a market capitalization of \$32 billion as of September 11, 2007.
 - Insures one out of every eight homes in the United States.⁵
 - Reported losses of over \$4 billion from Hurricanes Katrina and Rita.⁶
- A recent survey of S&P 500 corporations found that more than half are doing a poor job of disclosing climate risks to their investors.⁷

¹ Exxon Mobil Corp., Annual Report (Form 10-K), at 3 (Feb. 28, 2007), available at <http://ccbn.10kwizard.com/xml/download.php?repo=tenk&ipage=4708652&format=PDF>.

² Exxon Mobil Corp., This Is ExxonMobil, http://www.exxonmobil.com/Corporate/Files/Corporate/this_is_exxonmobil.pdf.

³ Allstate Corp., Annual Report (Form 10-K) (Feb. 22, 2007), available at <http://ccbn.10kwizard.com/xml/download.php?repo=tenk&ipage=4696156&format=PDF>.

⁴ Allstate, The Allstate Corporation at a Glance, <http://www.allstate.com/about.aspx>.

⁵ *Id.*

⁶ See Allstate Corp., Quarterly Report (Form 10-Q), at 7 (Nov. 1, 2005), available at <http://ccbn.10kwizard.com/xml/download.php?repo=tenk&ipage=3757279&format=PDF>.

Recent scientific, regulatory and legal developments show that climate change is material to corporate performance:

- 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."⁸
- Domestic regional, state and local initiatives to reduce greenhouse gas emissions now apply in territory representing over 58% of the U.S. GDP and 54% of the U.S. population.
- The United States Supreme Court set aside the U.S. Environmental Protection Agency's refusal to regulate global warming pollution under the Clean Air Act,⁹ and comprehensive federal legislation to regulate greenhouse gases is impending.

Business leaders and investors believe that climate change is material to corporate performance.

- "Our shareholders wanted to better understand the opportunities and risks that the climate change issue represented to their investment in Exelon, so we added a Global Climate Change section to our 2004 10-K." Helen Howes, Vice President of Environment, Health and Safety, Exelon.¹⁰
- The CEO of Chesapeake Energy, a major natural gas producer, recently declared that global warming is the single biggest risk to the natural gas industry because of its potential to decimate winter heating demand.¹¹
- 90 percent of business leaders believe that government regulation in this area is imminent, and 93 percent consider climate change related risks when making investment decisions.¹²
- In another recent study, 28 percent of executives cited environmental concerns, including climate change, as one of the issues likely to have the greatest impact on shareholder value in the next five years, and 87 percent of global companies indicated that global warming represents commercial risks and/or opportunities.¹³
- John Llewellyn of Lehman Brothers wrote, "In the world of business and finance, climate change has developed from being a fringe concern, focusing on the company's brand and its Corporate and Social Responsibility, to an increasingly central topic for strategic deliberation and decision-making by executives and investors around the globe."¹⁴

Our coalition of co-petitioners, representing over \$1.5 trillion in assets under management, include:

California State Controller, John Chiang; California Public Employees' Retirement System; California State Teachers' Retirement System; California State Treasurer, Bill Lockyer; Ceres; Environmental Defense; F&C Management; Florida Chief Financial Officer, Alex Sink; Friends of the Earth; Kentucky State Treasurer, Jonathan Miller; Maine State Treasurer, David G. Lemoine; Maryland State Treasurer, Nancy K. Kopp; The Nathan Cummings Foundation; New Jersey State Investment Council, Orin Kramer, Chair; 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, Richard Moore; Oregon State Treasurer, Randall Edwards; Pax World Management Corporation; Rhode Island General Treasurer, Frank T. Caprio; Vermont State Treasurer, Jeb Spaulding.

⁷ CARBON DISCLOSURE PROJECT, CALVERT & CERES, CLIMATE RISK DISCLOSURE BY THE S&P 500 (2007), available at http://www.calvert.com/pdf/ceres_calvert_sandp_500.pdf.

⁸ INTERGOVERNMENTAL ON CLIMATE CHANGE, *Summary for Policymakers*, in CLIMATE CHANGE 2007: THE PHYSICAL SCIENCE BASIS 5 (2007), available at http://ipcc-wg1.ucar.edu/wg1/Report/AR4WG1_Print_SPM.pdf.

⁹ *Massachusetts v. EPA*, 127 S. Ct. 1438 (2007).

¹⁰ PEW CTR. ON GLOBAL CLIMATE CHANGE, GETTING AHEAD OF THE CURVE: CORPORATE STRATEGIES THAT ADDRESS CLIMATE CHANGE 54 (2006), available at http://www.pewclimate.org/docUploads/Synthesis_Report_CorpStrategies.pdf.

¹¹ Audio recording: 2006 OGIS West Investment Symposium, held by the Indep. Petroleum Ass'n of Am. (Oct. 3, 2006), available at <http://www.investorcalendar.com/IC/CEPage.asp?ID=108780&CID=>.

¹² *Id.*

¹³ EDWARD M. KERSCHNER & MICHAEL GERAGHTY, CITIGROUP GLOBAL MARKETS, CLIMATIC CONSEQUENCES (2007), available at http://sefi.unep.org/fileadmin/media/sefi/docs/industry_reports/Citigroup_2007.

¹⁴ JOHN LLEWELLYN, LEHMAN BROTHERS, THE BUSINESS OF CLIMATE CHANGE: CHALLENGES AND OPPORTUNITIES 1 (2007), available at http://www.lehman.com/press/pdf_2007/TheBusinessOfClimateChange.pdf.