

- In 2005-2006, INCR members and other organizations, including CalPERS, CalSTRS, the California Controller and the Connecticut Treasurer's Office, developed the *Global Framework for Climate Risk Disclosure*, a statement of investor expectations for comprehensive corporate climate risk disclosure. The framework asks for disclosure of information such as regulatory risks related to climate change using SEC filings, corporate environmental reports, and other disclosure mechanisms. The framework has been used, most recently, to develop state and national guidance related to climate change disclosure, including a National Association of Insurance Commissioners proposal and California Senate Bill 1550, a voluntary climate disclosure bill.
- From 2003 to present, INCR members have been encouraging the SEC to issue guidance on what material risks related to climate change should be disclosed in securities filings. Their latest effort is the September 2007 *Petition for Interpretive Guidance on Climate Risk Disclosure*, which comprehensively lays out the case that climate change poses material risks that should be disclosed in SEC filings. That petition was signed by CalPERS, CalSTRS, eleven state and city treasurers and comptrollers, and ten additional foundations, asset managers, and other groups. It is supported by 50 additional investors representing over \$5.5 trillion.

Meaningful corporate disclosure is at the core of our market system, and investors cannot make proper decisions about the financial impacts of climate change on their portfolios without improved disclosure. In 2007, over 2,000 companies worldwide disclosed climate risks in response to requests from institutional investors, demonstrating that voluntary disclosure is useful to investors and not burdensome to companies. *The challenge for standards-setting bodies like FASB and IASB and securities regulators like the SEC is how to adapt existing voluntary climate disclosure guidance into their pronouncements and regulations, in order to provide useful information to investors and clear guidance to registrants.* In support of these important goals, I offer the following comments on the Exposure Draft.

Paragraph six of the Exposure Draft requires disclosure of contingencies which could have a severe financial impact on financial position, cash flows, or results of operations and are expected to be resolved within one year. While we applaud the inclusion of these contingencies in this draft, history has shown that many potentially severe threats to corporations and their owners are not resolved within one year. Therefore, we suggest that potentially severe contingencies not expected to be resolved within one year should be required to be disclosed in narrative form, and should be quantified where feasible.

Examples of severe financial threats that were not resolved within one year are abundant. For example, tobacco liabilities, asbestos liabilities, and the subprime lending crisis all developed over periods greater than one year. They did not present risks to shareholders that would be clearly resolved within one year, but they ultimately caused severe financial impacts that have proved extremely costly to investors and corporations.

If publicly-traded corporations had been required to disclose additional information about these severe risks, investors would have been able to encourage companies in which they invest to reduce their exposure to these risks.

Similarly, climate change poses potentially severe financial impacts which may not be resolved within one year but should be disclosed to shareholders. The FAS 5 Exposure Draft describes severe impacts as *contingencies which could have "a significant financially disruptive effect on the normal functioning of an entity . . . a higher threshold than material."* Analysts at major investment banks firms have described how climate change poses this type of severe, short or medium term risk to some companies. For example, John Lewellyn of Lehman Brothers wrote that because of regulatory and competitive exposure related to climate change, the European auto sector's profitability "could suffer markedly within the next

five years.” He added, “From an equity investor’s perspective, [this sector] could conceivably be the most affected sector, globally, within a 2-3 year investment timescale. . . . [T]here could be losers in the immediate term.”

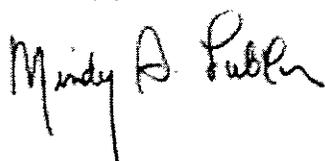
In addition, quantification of severe risks should be encouraged in disclosures, where feasible. For example, national legislation which limits greenhouse gas emissions, which many major corporations consider likely to pass in the short or medium term, poses quantifiable risks in a number of sectors. In 2004, American Electric Power (AEP) quantified its potential financial risk related to several national climate change bills. AEP found:

Compliance with the greenhouse gas control provisions of the McCain- Lieberman amendment appears possible with existing technologies at net present value costs between \$0.5 and \$0.9 billion, additional to the base case. The Carper bill would require much higher additional costs, between \$3.0 and \$6.4 billion. Again, these costs for compliance with greenhouse gas policies depend significantly on the economic efficiency of the control regime that is adopted.

This example of climate disclosure is far from rare. Over 50% of S&P 500 corporations voluntarily disclose climate risks to institutional investors on an annual basis. In other words, disclosure of climate-related financial risks by publicly traded corporations has firmly entered the mainstream, and standards-setting bodies like FASB should examine whether existing pronouncements ensure adequate climate risk disclosure. The Exposure Draft should be revised to require the disclosure of severe risks—like climate risk—that may affect registrants over time periods greater than one year.

I appreciate this opportunity to share Ceres’ position with you, and I would be pleased to provide additional information if helpful. I would also be happy to arrange a meeting with institutional investors—members of our Investor Network on Climate Risk—to explain their views on the need for improved climate risk disclosure in securities filings.

Sincerely yours,



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