

A Look at 2010-11 Guidance and Disclosure on Climate Impacts and Adaptation

In 2010, the U.S. Securities and Exchange Commission and the Canadian Securities Administrators issued guidance on climate change risk disclosure. Our review of 2010-11 annual securities disclosure to the U.S. SEC reveals that overall energy and mining companies express awareness about climate impacts and adaptation. However there is little evidence of comprehensive risk assessment and management work. Furthermore, a number of companies disclose information on climate impacts and adaptation in voluntary instruments. As interest of governments, regulators and investors is growing for climate impacts and adaptation disclosure, companies are exposed to potential criticism and legal dispute if they do not disclose information on the impacts of a changing climate for their business and how they are planning to cope.

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Progress in recognizing climate impacts and adaptation as material business risks

In 2011, energy and mining companies show greater awareness of the financial and business implications of climate impacts and adaptation. Between 2010 and 2010, there is a distinct trend of increasing risk disclosure related to operational and financial performance due to physical climate change impacts in annual corporate securities disclosures to the U.S. Securities Exchange Commission (SEC).

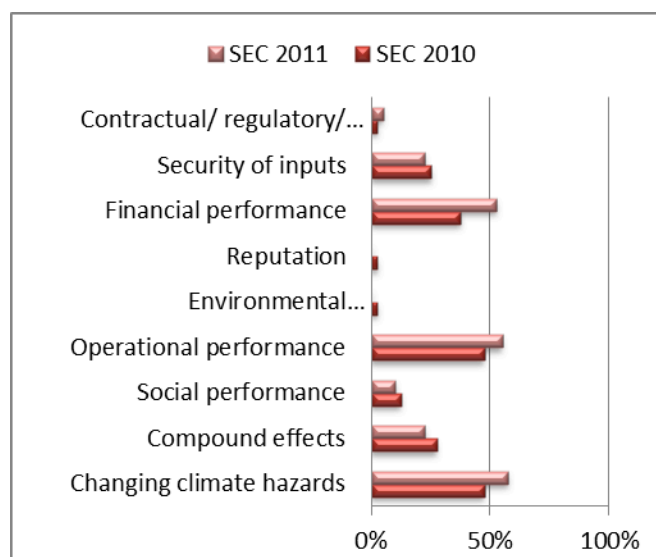


Figure 1. Types of risks associated with climate impacts and adaptation disclosed by companies in their annual disclosures submitted to the SEC in 2010 and 2011, known as '10-K filings' (% of companies out of a total sample of 40)

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Acclimatise has worked with many companies to help them understand how vulnerable their business is to a changing climate by assessing impacts for assets, workforce, supply chains and stakeholders expectations. In 2009, Acclimatise produced a series of four reports analysing climate change adaptation performance based on corporate responses to the Carbon Disclosure Project.

Our team has also advised banks, pension funds, asset and fund managers on the materiality of climate change risks for investment drivers and how to factor this into portfolio decision-making.

More information is available in the 'Disclosure and Investor Risk' section of our website:

www.acclimatise.ca

www.acclimatise.uk.com

Little evidence of climate risk assessments and adaptation

Fewer than 5% of annual energy and mining company disclosures in 2010 and 2011 include evidence of climate risk assessments or adaptation planning. In 2010, Acclimatise found that few corporate responses to the Carbon Disclosure Project (CDP) in the electricity, oil and gas, and mining sectors included evidence of risk assessment or adaptation work¹.

Treatment of climate impact and adaptation issues in corporate voluntary disclosures

Overall, energy and mining companies are not integrating climate impact and adaptation issues in their Corporate Responsibility (CR) reports. Most companies limit their disclosure of climate impacts and adaptation issues to their CDP responses. The few companies that have included such information in their CR reports have done it more thoroughly than in their annual securities filings.

Climate impact and adaptation disclosure risks

None of the annual securities filings we reviewed refers to the SEC Guidance issued in 2010². Yet, the latter clarifies what information companies should disclose with regards to climate change risks and opportunities, and how they should do that. In recent years, there have been a number of enforcement actions by the SEC and shareholder litigation against reporting companies for alleged failures to observe existing environmental reporting requirements³.

¹ Acclimatise. 2010: *Building business resilience to inevitable climate change*. A series of 4 reports: FTSE350, global electric utilities, global oil and gas, and global mining. Carbon Disclosure Project Report. Oxford, UK.

² Securities and Exchange Commission. 2010. Commission Guidance Regarding Disclosure Related to Climate Change. U.S. Securities and Exchange Commission, Washington.

³ See

<http://www.dandodiary.com/2010/02/articles/environmental-liability/will-the-secs-new-interpretive-guidance-open-the-door-to-climate-change-disclosure-suits/> (accessed 11/11/11).

Climate impacts and adaptation could be the next battle ground for such types of claims.

Although many businesses recognize the need to respond to climate change, few understand the risks and opportunities they face. Corporate disclosure remains limited to generic statements about changing climate hazards. Furthermore, companies tend to focus their attention on the impacts of extreme weather and leave aside the impacts of incremental changes in climate, which can threaten design standards and the effectiveness of operating rules. Fewer yet have begun to develop plans to build climate resilience. The absence of tangible action to better understand climate risks or reduce climate change vulnerability through adaptation measures could expose companies that have disclosed risks in their securities filings or voluntarily to investor or regulator criticism, and possibly legal action.

It is common for companies to use the inherent uncertainty about future climate change to justify the absence of adaptation action. However, failure to take into account reasonably foreseeable climate impacts in strategic and operational decision-making could be the object of legal dispute. Uncertainty exists on the extent and rate of future climate change, but there is sufficient information publically available to assess impacts and make 'climate-smart' decisions.

The SEC makes it clear that climate risk and adaptation considerations need to be disclosed if there is substantial likelihood that a 'reasonable investor' would consider the piece of information important in making an investment decision or if it would significantly alter the 'total mix' of available information. At least three major investor networks have publically recognized the potential negative impacts of climate change on their investment portfolios⁴. Furthermore, many investors have criticized the quality and depth of information on climate risk and adaptation disclosed by public companies in the past years. There are potential risks if companies do not disclose information and take

⁴ Institutional Investors Group on Climate Change et al., 2011: Investment-grade climate change policy: Financing the transition to the low-carbon economy.

action on climate risk and adaptation issues which are perceived by investors as material.

Acclimatise has reviewed shareholder resolutions filed in 2010-11 on climate risk and adaptation issues. Results show that companies are not properly addressing investors' concerns about the materiality of physical climate risks. This is available in the 'Disclosure and Investor Risk' section of our website

10 prudent steps on climate impact and adaptation disclosure risks

Public companies should develop an integrated approach to climate risk and adaptation disclosure. The following questions present key prudent steps for companies that want to engage on a journey to reduce their vulnerability to climate risk and adaptation disclosure risks.

1. Have you developed a process for assessing climate change risks, opportunities and adaptation measures?
2. Do you know if your key stakeholders have taken positions with respect to climate risk and adaptation?
3. Have you engaged with partners to understand risks, opportunities and adaptation strategies?
4. Have you built a portfolio of actions to deliver climate resilience?
5. Do you have an executive leadership responsibility on climate risk and adaptation?
6. Have you integrated climate risk and adaptation into your core strategic, business planning and management processes?
7. Have you aligned your business goals and performance indicators to reflect climate-resilient priorities, risks and opportunities?
8. Have you considered the approach to climate risk and adaptation disclosure being taken by other companies in your industry and the positions of your stakeholders?
9. Are your informal or 'soft' disclosures regarding climate risk and adaptation consistent with your regulatory disclosures?
10. Have you made sure that everyone in the company is aware of the information that has been released on climate risk and adaptation?

A longer and more detailed checklist of prudent steps for public companies on climate impact and adaptation disclosure is available by contacting us.

Climate risk screening as an entry-point on a climate change adaptation journey

To help investors and businesses in identifying and understanding the potential risks of climate change, Acclimatise developed an online, rapid, climate risk screening tool: Aware™. Visit our website at to find out more about the Aware™ tool.

Table 1. List of SEC 10-K annual filings we reviewed in the energy and mining sectors. For more information on the methodology please contact Acclimatise.

Ameren	FirstEnergy Corp.
Anadarko Petroleum	FPL Group
Apache	Freeport-McMoRan Copper & Gold
Baker Hughes	Halliburton
CenterPoint Energy	Hess
Chesapeake Energy	Marathon Oil
Chevron	Newmont Mining
CMS Energy	NiSource
ConocoPhillips	Occidental Petroleum
Consolidated Edison	Peabody Energy
Devon Energy	Pepco Holdings
Dominion Resources	PG&E Corp.
DTE Energy	Progress Energy
Duke Energy	Public Service Enterprise Group
Edison International	Sempra Energy
El Paso Corporation	Smith International
Entergy	Southern Company
EOG Resources	Wisconsin Energy
Exelon	Xcel Energy
Exxon Mobil	XTO Energy