

Global Framework for Climate Risk Disclosure

A statement of investor expectations
for comprehensive corporate disclosure



A publication of **Ceres**

Introduction

A group of leading institutional investors from around the world released the Global Framework for Climate Risk Disclosure—a new statement on disclosure that investors expect from companies—in October 2006. Investors require this information in order to analyze a company’s business risks and opportunities resulting from climate change, as well as the company’s efforts to address those risks and opportunities. The Framework encourages standardized climate risk disclosure to make it easy for companies to provide and for investors to analyze and compare companies.

The Framework consists of four elements of disclosure:¹

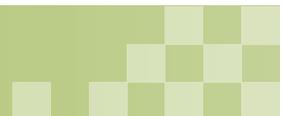
- ❖ Total historical, current, and projected greenhouse gas emissions
- ❖ Strategic analysis of climate risk and emissions management
- ❖ Assessment of physical risks of climate change
- ❖ Analysis of risk related to the regulation of greenhouse gas emissions

The investors strongly encourage companies to apply this new Framework through existing reporting mechanisms, including:

- ❖ **Mandatory Financial Reports**—The U.S. Securities and Exchange Commission as well as regulatory and industry bodies in other countries require companies to disclose information of financial importance to the company, and many companies now include climate risk information in their standard financial reporting.
- ❖ **The Carbon Disclosure Project**—The Carbon Disclosure Project (CDP) represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on climate risk. In 2007, CDP sent this request to over 2,400 companies. Its web site is the largest registry of corporate greenhouse gas emissions in the world. The content of the Framework is consistent with CDP.
- ❖ **Global Reporting Initiative**—The Global Reporting Initiative (GRI) is a reporting system closely aligned with CDP that issues Sustainability Reporting Guidelines for comprehensive reporting on the economic, environmental, and social dimensions of corporate activities, products, and services. Using the GRI Guidelines, companies can disclose significant information regarding their climate risk.
- ❖ **Other Forms of Disclosure**—Companies disclose forward-looking material information important to investors through various methods, such as analyst briefings and sustainability reports. At the request of investors, many companies have also prepared special reports on climate risk.

1. See pages 5-8 to view the complete Framework.

The investors and collaborating organizations developed this Framework through a one-year Climate Risk Disclosure Initiative. The investors will continue to discuss activities to enhance climate risk disclosure through the communication networks of existing investor groups focused on climate change—the Institutional Investors Group on Climate Change (IIGCC), the Investor Network on Climate Risk (INCR), and the Investor Group on Climate Change. The investor groups will also continue discussions with two collaborating organizations—the Carbon Disclosure Project and the Global Reporting Initiative—the leading voluntary efforts to standardize climate risk disclosure and reporting worldwide. Climate risk disclosure is a burgeoning field, as companies, investors, governments, and civil society increasingly understand the risks and opportunities that climate change poses for companies and investors. The investor groups and collaborating organizations plan to meet periodically to discuss developments in climate risk disclosure.



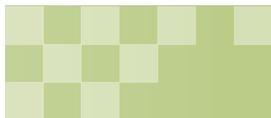
Development of the Framework

In May 2005, 14 leading investors and other organizations worldwide launched a new effort to improve corporate disclosure of the risks and opportunities posed by global climate change — the Climate Risk Disclosure Initiative. The CRDI Steering Committee developed a draft Framework for climate risk disclosure, and circulated it for review by investors, companies, financial analysts, and other experts. More than 50 reviewers have commented on the draft. The Steering Committee amended its initial draft substantially as a result of that expert input.

The CRDI Steering Committee included representatives from:

- ❖ California Public Employees' Retirement System
- ❖ California State Controller's Office
- ❖ California State Teachers' Retirement System
- ❖ Carbon Disclosure Project
- ❖ Ceres and the Investor Network on Climate Risk (INCR)
- ❖ Connecticut State Treasurer's Office
- ❖ Global Reporting Initiative
- ❖ Institutional Investors Group on Climate Change
- ❖ Investor Group on Climate Change
- ❖ United Nations Environment Programme Finance Initiative
- ❖ United Nations Foundation
- ❖ United Nations Fund for International Partnerships
- ❖ Universities Superannuation Scheme

Investors created this global Framework in order to clearly communicate investor expectations about the characteristics of successful corporate climate risk disclosure. They invited the CDP and GRI to participate since these initiatives represented the most appropriate voluntary reporting frameworks for disclosing climate risk information.



Climate Risk and Opportunities

Given the sweeping global nature of climate change, climate risk and opportunity is embedded in the operations of all companies. Some companies with significant emissions of greenhouse gases or energy use face current or future regulatory risks, while climate change may pose a range of physical or financial risks to other firms. These risks may include operational risk, market risk, liabilities risk, policy risk, regulatory risk, and reputational risk. In some cases, the risks to companies may be indirect. For example, even if a company is not directly subject to regulations, significant emissions in its value chain may still result in increased costs (upstream) or reduced sales (downstream). Climate change also represents significant opportunities for many firms. Some companies will develop profitable new technologies or markets as governments pursue innovative strategies to address climate change and spur technology development.

The Climate Risk Disclosure Initiative Steering Committee welcomes feedback on the Framework. For additional information on the Framework or to offer feedback, please contact:

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Uses for the Framework

The investors supporting this Framework urge:

- ❖ Companies to use existing disclosure mechanisms to provide information that meets investors' expectations and serves their analytical needs.
- ❖ Securities regulators and governments to ensure that corporate climate risk disclosure in financial statements adheres to the Framework.
- ❖ Other investors and financial analysts to insist that corporations disclose the information called for in the Framework and then incorporate this information in their analysis.

Global Framework for Climate Risk Disclosure

While each sector and company may differ in its approach to disclosure, the most successful corporate climate risk disclosure will be transparent and make clear the key assumptions and methods used to develop it. Companies should directly engage investors and securities analysts in disclosing climate risk through both written documents and discussions.

Investors expect climate risk disclosure to allow them to analyze a company's risks and opportunities and strongly encourage that the disclosure include the following elements:

1 Emissions—As an important first step in addressing climate risk, companies should disclose their total greenhouse gas emissions. Investors can use this emissions data to help approximate the risk companies may face from future climate change regulations.

Specifically, investors strongly encourage companies to disclose:

- ❖ Actual historical direct and indirect emissions since 1990;
- ❖ Current direct and indirect emissions; and
- ❖ Estimated future direct and indirect emissions of greenhouse gases from their operations, purchased electricity, and products/services.²

Investors strongly encourage companies to report absolute emissions using the most widely agreed upon international accounting standard—Corporate Accounting and Reporting Standard (revised edition) of the Greenhouse Gas Protocol, developed by the World Business Council for Sustainable Development and the World Resources Institute.³ If companies use a different accounting standard, they should specify the standard and the rationale for using it.

2. These emissions disclosures correspond with the three "scopes" identified in the *Greenhouse Gas Protocol Corporate Accounting and Reporting Standard* (revised edition) developed by the World Business Council for Sustainable Development and the World Resources Institute. Scope 1 includes a company's direct greenhouse gas emissions; Scope 2 includes emissions associated with the generation of electricity, heating/cooling, or steam purchased for a company's own consumption; and Scope 3 includes indirect emissions not covered by Scope 2. More information is available at <http://www.ghgprotocol.org>.

3. Available at <http://www.ghgprotocol.org>.

2 Strategic Analysis of Climate Risk and Emissions Management—

Investors are looking for analysis that identifies companies' future challenges and opportunities associated with climate change. Investors therefore seek management's strategic analysis of climate risk, including a clear and straightforward statement about implications for competitiveness. Where relevant, the following issues should also be addressed: access to resources, the timeframe that applies to the risk, and the firm's plan for meeting any strategic challenges posed by climate risk.

Specifically, investors urge companies to disclose a strategic analysis that includes:

- ❖ **Climate Change Statement**—A statement of the company's current position on climate change, its responsibility to address climate change, and its engagement with governments and advocacy organizations to affect climate change policy.
- ❖ **Emissions Management**—Explanation of all significant actions the company is taking to minimize its climate risk and to identify opportunities. Specifically, this should include the actions the company is taking to reduce, offset, or limit greenhouse gas emissions. Actions could include establishment of emissions reduction targets, participation in emissions trading schemes, investment in clean energy technologies, and development and design of new products. Descriptions of greenhouse gas reduction activities and mitigation projects should include estimated emission reductions and timelines.
- ❖ **Corporate Governance of Climate Change**—A description of the company's corporate governance actions, including whether the Board has been engaged on climate change and the executives in charge of addressing climate risk. In addition, companies should disclose whether executive compensation is tied to meeting corporate climate objectives, and if so, a description of how they are linked.

3 Assessment of Physical Risks of Climate Change—Climate change is beginning to cause an array of physical effects, many of which can have significant implications for companies and their investors. To help investors analyze these risks, investors encourage companies to analyze and disclose material, physical effects that climate change may have on the company’s business and its operations, including their supply chain.

Specifically, investors urge companies to begin by disclosing how climate and weather generally affect their business and its operations, including their supply chain. These effects may include the impact of changed weather patterns, such as increased number and intensity of storms; sea-level rise; water availability and other hydrological effects; changes in temperature; and impacts of health effects, such as heat-related illness or disease, on their workforce. After identifying these risk exposures, companies should describe how they could adapt to the physical risks of climate change and estimate the potential costs of adaptation.



4 Analysis of Regulatory Risks—As governments begin to address climate change by adopting new regulations that limit greenhouse gas emissions, companies with direct or indirect emissions may face regulatory risks that could have significant implications. Investors seek to understand these risks and to assess the potential financial impacts of climate change regulations on the company.

Specifically, investors strongly urge companies to disclose:

- ❖ Any known trends, events, demands, commitments, and uncertainties stemming from climate change that are reasonably likely to have a material effect on financial condition or operating performance. This analysis should include consideration of secondary effects of regulation such as increased energy and transportation costs. The analysis should incorporate the possibility that consumer demand may shift sharply due to changes in domestic and international energy markets.
- ❖ A list of all greenhouse gas regulations that have been imposed in the countries in which the company operates and an assessment of the potential financial impact of those rules.
- ❖ The company's expectations concerning the future cost of carbon resulting from emissions reductions of five, ten, and twenty percent below 2000 levels by 2015. Alternatively, companies could analyze and quantify the effect on the firm and shareowner value of a limited number of plausible greenhouse gas regulatory scenarios. These scenarios should include plausible greenhouse gas regulations that are under discussion by governments in countries where they operate. Companies should use the approach that provides the most meaningful disclosure, while also applying, where possible, a common analytic framework in order to facilitate comparative analyses across companies. Companies should clearly state the methods and assumptions used in their analyses for either alternative.

About Ceres

Ceres is a national coalition of investors, environmental groups, and other public interest organizations working with companies to address sustainability challenges such as climate change. Ceres also directs the Investor Network on Climate Risk, a group of 60 institutional investors managing more than \$4 trillion of assets. The purpose of INCR is to promote better understanding of the risks of climate change among institutional investors.

For more information, visit www.ceres.org and www.incr.com.

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