


**SEC Climate Change Disclosure Guidance**  
 ACCO Climate Change Leadership Series  
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## Communicating Climate Change to Investors


Exhibit 4  
**How companies communicate**

% of respondents<sup>1</sup>

| Ways in which companies communicate engagement in sustainability activities to external audiences | Energy, n = 98 | Total, n = 1,749 |
|---------------------------------------------------------------------------------------------------|----------------|------------------|
| Embeds sustainability data in communication with mainstream investors                             | 54             | 35               |
| Informal presentations                                                                            | 49             | 36               |
| Publishes a sustainability section on corporate Web site                                          | 47             | 36               |
| Issues a sustainability report                                                                    | 43             | 26               |
| Communicates with socially responsible investors (SRI)                                            | 32             | 22               |
| Participates in sustainability rankings and/or indexes                                            | 30             | 20               |
| No external communication                                                                         | 15             | 25               |

<sup>1</sup> Respondents who answered "other" or "don't know" are not shown.

Source: McKinsey Quarterly; How companies manage sustainability 3/2010



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### Example Issues Influencing Materiality

|                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>State/Fed Legislation:</b></p> <ul style="list-style-type: none"> <li>EPA Endangerment Finding</li> <li>EPA MRR</li> <li>RGGI</li> <li>WCI</li> <li>AB 32</li> <li>Waxman – Markey (potential or real?)</li> <li>Kerry, Lieberman, Graham Proposal</li> <li>Title V Tailoring Rule</li> </ul> | <p><b>International Legislation:</b></p> <ul style="list-style-type: none"> <li>EU ETS</li> <li>Kyoto</li> <li>Copenhagen Commitments</li> </ul>                                                                                                 |
| <p><b>Indirect Business Trends:</b></p> <ul style="list-style-type: none"> <li>Customer demands</li> <li>Market dynamics (ARRA influence)</li> <li>Changing perceptions</li> <li>Commodity pass-throughs</li> <li>Cap Ex</li> <li>Insurance</li> </ul>                                              | <p><b>Physical Impacts:</b></p> <ul style="list-style-type: none"> <li>Water availability</li> <li>Geo-political</li> <li>Weather events</li> <li>Coastal locations</li> <li>Flooding</li> <li>Temperature</li> <li>Food availability</li> </ul> |

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### Example Disclosures

- Federal and International Regulations
  - Operations regulated
  - Direct and indirect costs; cost of compliance
- Indirect Business Trends
  - CapEx Impacts (IT / EE / DG)
  - Re-prioritization of project or product mix that meets hurdle rate
  - Market opportunities and threats (market assessment)
  - ‘Carbon’ or commodity pass-through contracts
- Physical Impacts
  - Qualitative (water, weather, coastal)
  - Asset impacts (valuation)

Short Term Impacts:

SEC guidance will drive deeper quantitative and monetary analysis climate change impacts

Sustainability reporting will start transitioning to 10-k / annual reports

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## Climate Change Impacts - Legislation (Direct)

### Geographic Regulatory Risk

- Percent of assets/revenues/COGS exposed to regulations

### Compliance Costs

- Systems, monitoring, reporting
- Cap and trade
- CapEx

### Compliance Related Opportunities

- New or increased revenue or profit (e.g. CDM, offsets, RECs)

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## Climate Change Impacts - Legislation (Indirect)

### Energy Risk

- Trickle down of compliance costs
- Energy costs as a percentage of COGS

### Water Risk\*

- Trickle, trickle down of compliance costs
- Water costs as a percentage of COGS

### Contractual Risk – Is Carbon a Pass-through?

- Surcharges and pass throughs as risk management tool
- Concrete, steel, construction related industries have 'surcharges'
- Utilities have fuel charge pass-throughs (Net income neutral)
- Do current and future contracts (buy and sell) address it?
- Percent of applicable contracts with 'pass-through' and monetary exposure (risk or risk mitigation)

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## Climate Change Impacts – Indirect Business Trends

### CapEx

- Distributed Generation / Renewables
- Energy Efficiency / Green IT

### Customer and New Product Demands

- Low carbon branded products

### Resource Switching

- Low carbon/energy/water intensive feedstocks; lower cost
- Recycled feedstocks; 'green' product demand

### Clean Energy Demand

- Generation
- Transmission
- Affiliated energy initiatives (Smart grid measures, EVs, Energy Star)

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## Climate Change Impacts – Physical Impacts

### Example Physical Impacts Variables:

Sea levels / coastal regions  
 Weather (storms / drought / precipitation / temperature)  
 Energy / water resources  
 Agriculture and food availability

### Identify Boundaries and Define Exposure to Physical Impact Variables:

#### Boundaries:

Geographic and operational (supply / value chain)

#### Define exposure:

Specific impact exposures and intensities (e.g. coastal, weather, water, resource)  
 Resulting asset / revenue / expense impacts

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## Climate Change Impacts – Physical Impacts

### Geographic Risk

- Percent of assets/revenues/expenses affected by physical impacts (e.g. coastal, drought/flooding, weather events, agriculture)
- Asset insurance costs
- Real estate / tourism value and revenues
- Infrastructure
- Supplier operating geographic risk

### Operational Risk

- Natural resource availability risk (Supply and Demand)
- Water costs as a percentage of COGS
- Level of water resource reliance (hydro, recreation, beverage, Ag, mining, semiconductor)
- Ag / food availability
- Transportation
- Operational insurance costs
- Geo-political (war games/scenario planning)

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## Evolution of Disclosure : Long-term

- Benchmarking in Market Segments
  - Compare risk and exposure as a portion of operating costs
  - Leads to development of climate change ratios (e.g. water cost as % of COGS)
- Quantify impacts to and between market segments and companies:
  - Competitive Advantage and Strategy
  - Net Income / Margins
  - Expenses
- Additionality of Climate Change
  - Impacts (costs) attributable to climate change vs. market forces; (e.g. Natural gas commodity costs increase due to climate change vs. supply/demand)

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## Evolution of Disclosure

Short-term (1- 5 years)  
Qualitative

Long-term (5+years)  
Little more quantitative

Uncertainty and reluctance to disclose what others are not – leads to market reaction (undesirable)

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## Conclusions and Reality

- Early variability in reporting
- Justification for qualitative disclosure
  - Real and legalese
- Qualitative, eventually quantitative
- Forces companies to truly quantify climate change risks
  - Internally, then externally
  - Identify drivers and boundaries (geography, energy, water, natural resource use)
- Additionality
  - Attributable to climate change vs. market forces

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## More Conclusions and Reality

- Much more in-depth analysis required to monetize impacts
  - No standards, just guidance
  - 65% of companies don't embed any sustainability data in communications with investors
- Carbon intensive industries are ready; however, they will disclose little as to not 'upset the market'
- Pass – throughs are important
- CapEx will begin shifting
  - Amplified with higher climate change risk companies
- Asset valuations – extent of impact / reserves / ratings?

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