



Ceres

Sustainability is the bottom line.

The Need for SEC Rules on ESG Risk Disclosure

Comment on
Making Sustainability Disclosure Sustainable

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Ceres and sustainability disclosures



- In the wake of the Exxon Valdez oil spill, investors and advocacy organizations came together with the understanding that environmental and social issues have consequences on people, the planet, and corporate financial performance.
- To manage these risks, investors needed robust, decision useful disclosure on how companies were managing environmental and social risks.
- In 1997, Ceres founded the Global Reporting Initiative to set global standards for comparable disclosure that investors and stakeholders could use in their decision making



The case for mandatory disclosure

Since the release of GRI the sustainability disclosure space has boomed, but the quality & comparability of disclosures remains poor

- In an analysis of 637 SEC filings, SASB found that while 73% of registrants acknowledged the risks posed by climate change, more than 40% use boilerplate language, and only 17% use metrics

2010 SEC Interpretive Guidance on Climate Risk Disclosure tried to bridge the gap between investor's needs and company disclosure

- When the guidance was first issued, a two year period followed in which SEC staff sent over 40 comments letters to issuers. Since then, there have been few comment letters from SEC staff

Investors continue to push for more "decision useful" climate risk disclosure

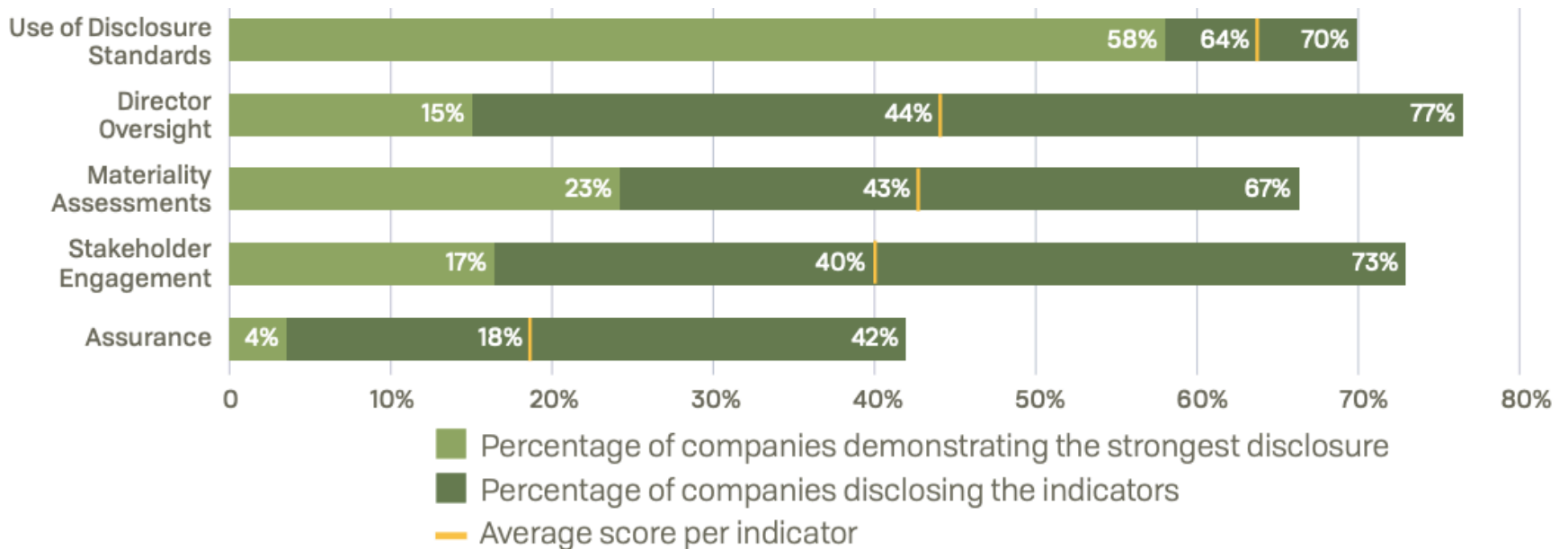
- In Dec 2019, 631 investors managing over US \$37 trillion signed the Global Investor Statement to Governments on Climate Change, calling on world governments to improve climate-related financial reporting

In light of this, **we strongly agree with Professor Fisch** that the SEC needs to provide more information to issuers on improving ESG disclosure.



Comprehensive disclosure of “decision useful” metrics is rare

Percentage of Companies Disclosing and Average Score per Indicator



Disclose What Matters, Ceres. 2018



Discussion of the proposed SD&A

Pros

1. Would improve the quantity and quality of company disclosure (if properly implemented)
2. Would result in more information from issuers
3. Would ensure that the board enhances its expertise on sustainability and oversight from a strategic risk management standpoint

Cons

1. It silos sustainability in a separate section of financial filings
2. It leaves the determination of sustainability issues to disclose to issuers
3. It is unlikely to promoted comparability



Materiality

“Some like to believe that sustainability risks are not real financial risks, but let’s be clear:

Risks are risks, and they need to be disclosed --whether they come from trade agreements, fluctuating commodity prices, inflation, or climate change.”

*-Mindy Lubber,
President and CEO, Ceres
in testimony to House lawmakers on
mandating corporations report on climate-
related risks
July 10, 2019*

- Material risks from ESG factors are no different than any other material risk, and must be assessed and disclosed robustly, alongside other risks in financial filings.
- This includes disclosure in MD&A where applicable, but also in risk factors, financial results, footnotes and any other section of filings where other risks are disclosed
- An SD&A doesn’t resolve the issue because since materiality determination is made by the company, many companies say ESG is not material.





Options to consider

- **SEC rules are needed to provide comparable disclosure**
 - Ceres and other petitioners to the SEC have called for SEC rules that: “encompass a mix of required elements, based on industry and sector; information about firms’ governance of sustainability issues across industries; and principles-based elements to act as a materiality backstop.”
 - ESG risks and ESG disclosure metrics continue to evolve, therefore a rule could balance required elements to allow for comparability and principles-based elements for issues where comparable metrics do not currently exist.
- **Consider a Comply or Explain approach**
 - Expects companies to talk about whether or not they have analyzed if climate and ESG issues are material.
 - SEC should say that the assumption is that an ESG issue is material to you, unless you show otherwise.





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Thank you!

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