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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

December 6, 2007

Honorable Christopher Cox, Chairman
United States Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Dear Chairman Cox:

On October 31, 2007, the Committee held a hearing on "Climate Disclosure: Measuring Financial Risks and Opportunities," the purpose of which was to assess the types of risks and opportunities posed by climate change; the connections between climate change and the health of global markets; how climate risks and opportunities are currently being discussed in corporate financial disclosure documents; and whether or not current disclosure requirements are adequate.

The Committee heard testimony that in recent years, climate risk has emerged as an important issue for businesses and investors alike, with numerous Wall Street research reports being issued, increased interest from institutional and other investors, and increased scrutiny by policy makers. Even so, climate risk *disclosure* has not increased commensurate with these developments. The risks and opportunities posed by climate change today and in the future are becoming increasingly apparent.

In September 2007, the Carbon Disclosure Project (CDP) released its 5th annual survey. The CDP represents 315 institutional investors with assets of \$41 trillion, or more than one third of total global invested assets. Fifty-six percent of S&P 500 companies answered the survey. Of those responding, 81 percent of the companies reported that they regard climate change as posing a commercial risk, and 69 percent considered it an important business opportunity. While a majority of S&P 500 companies participated in the survey, the CDP also conducted a review of Form 10-K securities filings and found that climate change disclosure was rare.

We believe the SEC should issue definitive guidance in the form of an interpretive release to ensure greater consistency and completeness in disclosure of material information related to climate change and current and probable future governmental regulation of greenhouse gas emissions; provide information for registrants on whether and how to disclose such matters; and ensure that investors have access to material climate change information. In our view, this is an appropriate time for the Commission to issue such a release. We believe that interpretive guidance on this issue should:

- clarify that registrants should assess the consequences of climate change and existing and anticipated future governmental regulation of greenhouse gas emissions on their

business, results of operations, and financial condition, or should disclose their basis for determining that such an assessment is not warranted;

- provide guidelines and criteria for use by registrants in conducting such an assessment, including on accounting and auditing standards that registrants and their auditors should consider in evaluating a climate change assessment;
- provide guidance on the circumstances in which registrants are required to disclose, under Item 101 of Regulation S-K or otherwise, the material effects that compliance with currently enacted or adopted government regulations of greenhouse gas emissions may have upon their capital expenditures, earnings, and competitive position;
- clarify that disclosure is required under Item 303 of Regulation S-K, if the registrant determines that the consequences of climate change or governmental regulation of greenhouse gas emissions would reasonably be expected to have a material effect on its business, results of operations, or financial condition;
- clarify registrants' obligations to disclose information concerning the risks and opportunities identified in the climate change assessment, including risks associated with the present or probable future physical risks of climate change, the present or probable future regulation of greenhouse gas emissions, or legal proceedings related to climate change;
- ensure that disclosures describe the registrant's plans and state of readiness to avoid or mitigate any potential adverse consequences of climate change and governmental regulation of greenhouse gas emissions, and that disclosure specific to each registrant is presented in meaningful and specific language and is quantified to the extent practicable for registrants and meaningful for investors.

We urge the commission to issue such interpretive guidance, and would be interested in learning on an ongoing basis about efforts to enhance guidance to issuers of disclosures related to climate change. We also request that the SEC analyze and report to us on the adequacy of disclosure relating to climate change and the regulation of greenhouse gas emissions in 10-K filings.

Thank you for your consideration of our concerns.

Sincerely,



Honorable Christopher J. Dodd, Chairman



Honorable Jack Reed, Chairman
Subcommittee on Securities, Insurance and Investment