Ceres

July 18, 2009

Elizabeth M. Murphy
Federal Advisory Committee Management Officer
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. 265-25, Investor Advisory Committee

Dear Investor Advisory Committee members:

Thank you very much for the opportunity to submit a statement in advance of your first meeting on July 27, 2009. I am writing to suggest that as the Committee develops its priorities for this year, it considers the strong interest of institutional investors in seeing improved disclosure of material environmental, social and governance (ESG) risks in SEC filings.

Ceres is a national coalition of institutional investors, environmental groups and other organizations working with companies to address sustainability challenges such as climate change. Ceres directs the Investor Network on Climate Risk (INCR), a group of more than 80 institutional investors from the U.S. and Europe, managing approximately $7 trillion in assets, which promotes better understanding of the financial risk posed by climate change among investors.

A group of fifteen INCR members first wrote the SEC about improving climate risk disclosure in 2004, when it had become clear that climate change posed material risks to some companies that were inadequately disclosed in SEC filings. In the last five years, abundant evidence has been compiled of the materiality of these risks, and voluntary corporate disclosure of and responses to climate risk and opportunities have increased significantly. However, disclosure of these risks in SEC filings remains inadequate or non-existent.

In June 2009, 41 institutional investors—INCR members representing approximately $1.4 trillion in assets—wrote to SEC Chairwoman Mary Schapiro about these issues. The letter (see Appendix) asks the SEC to improve corporate disclosure of climate change-related risks and material environmental, social and governance risks in securities filings, specifically asking the Commission to:

> a) Strengthen current disclosure requirements by issuing formal interpretive guidance on the materiality of risks posed by climate change companies should be disclosing;

b) Enforce existing disclosure requirements for material environmental, social or governance risks such as climate change, which are underreported;

c) Recognize shareholders' right to submit resolutions related to climate change and material environmental, social and governance issues; and

d) Require disclosure of material environmental, social, and governance risks, based on the Global Reporting Initiative as a framework for a mandatory ESG disclosure system.

The letter also emphasizes the need for clear disclosure standards that provide uniform and comparable information on ESG risks that are of interest to investors.

I believe that the views of the Investor Advisory Committee members would be extremely helpful to the Commission and SEC Staff as they consider these issues. If the Committee examines these issues, please consider Ceres as a resource. Ceres has collaborated with several other organizations to produce: (1) research on the inadequate state of climate risk disclosure in SEC filings, (2) investor guidance on the type of climate risk disclosure they require, including an investor petition to the SEC and the Global Framework for Climate Risk Disclosure, and (3) sector-specific climate disclosure guidance for the electric power, automotive, and insurance sectors.

If you have thoughts or questions about these issues, please feel free to contact me at lubber@ceres.org or (617) 247-0700 ext. 130 or my colleague Jim Coburn at coburn@ceres.org or (617) 247-0700 ext. 119. Thank you very much for your consideration.

Sincerely yours,

Mindy S. Lubber
President, Ceres
Director, Investor Network on Climate Risk

Appendix: June 12, 2009 Investor Letter

Investor Network on CLIMATE RISK a project of Ceres

June 12, 2009

Mary L. Schapiro
Chairman
United States Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Dear Chairman Schapiro:

We are 41 treasurers, comptrollers, controllers, institutional investors and asset managers representing approximately $1.4 trillion in assets. We are writing to ask the Securities and Exchange Commission to take several steps this year to improve disclosure of climate change-related risks, and material environmental, social and governance risks, in securities filings. These actions will protect investors by giving them better information for managing risks in their portfolios.

We appreciate the SEC's new initiatives to improve corporate disclosure and accountability, and we recognize the significant investment of resources those initiatives require. We also know that past investments in information disclosure have paid off handsomely, enabling us to build relatively efficient, well-functioning financial markets. Recognizing that information is the foundation of efficient markets, we also strongly encourage the Commission, in setting its priorities for the year, to acknowledge the financial implications of climate change and other environmental, social and governance risks for investors and take steps to address them.

Many of us have worked to improve corporate reporting on environmental, social and governance (ESG) factors, because they pose material risks that affect investors but are generally not disclosed. Examples include environmental risks related to climate change, water scarcity, toxic chemicals, and natural resource conservation; social risk factors such as labor practices, working conditions, slave labor, and human rights; and governance issues such as board accountability and executive compensation. As fiduciaries with a long-term view of capital appreciation that must meet the interests of multiple generations of beneficiaries, we have concluded that seeking, interpreting, and integrating such ESG information into our investment decision-making process is becoming ever more necessary and prudent.

Climate change is a leading example of a material ESG issue because of the sizable risks it poses to the environment, society, economies and investments; and because of its ability to significantly accelerate other material environmental and social risks. Accordingly, many of us have concluded that disclosure of the regulatory, physical and litigation risks from climate change is critical in understanding the value and security of our investments, and that is why we are writing to urge the SEC to act accordingly.

In response to our efforts to suggest that disclosure of ESG issues is a critical element in making more informed investment decisions, more businesses have started to disclose the climate risks they face and have begun to account for the impacts of climate change on their financial performance and market competitiveness. Many others have seen climate change as an opportunity to develop energy-efficient or low-carbon products, or a chance to gain market share and competitiveness.

However, useful climate risk disclosure in SEC filings remains rare, as shown by a June 2009 report evaluating the quality of disclosure last year by 100 companies in several sectors affected by climate change regulations: oil and gas, electric power, coal, insurance and transportation. The report, which examined 10-K and 20-F reports filed in Q1 2008, found that only two of the 100 companies disclosed more than half of the information sought by investors.[1]

Even in sectors with high climate risk disclosure rates, the quality of disclosure in securities filings is low. For example, only 35.5% of S&P 500 utilities identified at least one climate change risk and articulated a strategy for

[1] Ceres & Environmental Defense Fund, Climate Risk Disclosure in SEC Filings, June 2009.

addressing it in their Fiscal Year 2007 10-K reports.[2]

Institutional investors have previously developed guidance for the Commission about the climate risks we would like disclosed in securities filings. In October 2006, several of us released the Global Framework for Climate Risk Disclosure, which addresses greenhouse gas emissions, emissions management information, climate governance activities, and related issues; and calls on securities regulators to ensure that disclosure in financial statements adheres to the Framework. In September 2007, many of us petitioned the SEC, asking for interpretive guidance on material information companies must disclose related to climate change. That request has been supported by over 50 U.S. and European investors with collective assets totaling approximately $5.5 trillion.

With regard to ESG risks besides climate change, we have worked to improve voluntary corporate ESG disclosure, because this information is increasingly necessary for investors, useful to managers, and relevant to communities. More than 80% of S&P 100 companies provide some form of ESG information online, and more than one-third make use of the Global Reporting Initiative (GRI) guidelines, the international standard for ESG reporting. In addition, several governments, regulatory bodies and stock exchanges have begun to encourage or require standardized reporting of corporate ESG data, including the French and Swedish governments, China's Assets Supervision and Administration Commission, and the London, Brazilian, South African and Malaysian stock exchanges.

There is a great deal of peer-reviewed academic literature on the financial relevance of ESG factors. One recent academic study found that companies listed on the "Fortune Best 100 Companies to Work for in America" outperformed a size- and industry-matched control group between 1998 and 2004. Another academic study found that the stock market reacts negatively to evidence—usually in the form of a regulatory penalty—of poor environmental management. Several studies have documented significant links between good governance and financial outperformance.

While not every single fact about a company's environmental, social, or governance policy and performance would be judged material at a given moment, materiality of ESG factors emerges from many data points, very much like financial materiality. It would be difficult to make a case that every item on a balance sheet, income statement, or statement of cash flows is material in isolation; what makes financial reporting material is its comprehensive nature, not the properties of each individual data point.

Unfortunately, the ad hoc, voluntary approach to ESG reporting in the United States does not serve investors well. In order to build portfolios, we must have the ability to compare company policies and performance to their peers, which requires reporting by all companies, using well-understood protocols for such reporting. In order to retain and expand U.S. competitiveness, help rebuild trust in the capital markets, and enable investors to select and reward firms with superior strategies for long-term value creation, the SEC should integrate reporting of material ESG factors into its disclosure system. Such integration would reaffirm the SEC's role as the central authority for all business reporting and should produce clear disclosure standards that provide uniform and comparable information on ESG issues that are of interest to investors.

We strongly recommend that the Commission consider basing any ESG disclosure system on the Global Reporting Initiative. The GRI provides a powerful and dynamic multi-stakeholder process that can reveal genuine sources of corporate value. The GRI Sustainability Reporting Guidelines are a highly developed and widely accepted form of ESG reporting that, along with other reporting criteria, the Commission can rely on. By relying on this internationally accepted standard, the SEC will level the playing field of ESG disclosure, lower costs to U.S.-based multinationals that are already making use of it, and support the expansion of domestic U.S. firms into foreign markets where such reporting is viewed as essential.

In summary, we are asking the Commission to take the following steps to improve corporate disclosure of material ESG risks in securities filings, with particular, immediate emphasis on corporate disclosure of climate risks:

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[2] Center for Energy and Environmental Security, Ceres & Environmental Defense Fund, Trends in Climate Risk Disclosure by the S&P 500 from 1995 to the Present, June 2009.

a) Strengthen current disclosure requirements by issuing formal interpretive guidance on the materiality of risks posed by climate change companies should be disclosing[3];

b) Enforce existing disclosure requirements for material environmental, social or governance risks such as climate change, which are underreported;

c) Recognize shareholders' right to submit resolutions related to climate change and material environmental, social and governance issues; and

d) Require disclosure of material environmental, social, and governance risks, based on the Global Reporting Initiative as a framework for a mandatory ESG disclosure system.

Thank you very much for your time and attention. We would like to meet with you to discuss these issues. In the near future, Ceres will contact your office on our behalf to request a meeting to discuss these important matters.

In the meantime, please do not hesitate to contact Mindy Lubber, President of Ceres, at (617) 247-0700 ext. 130 or via e-mail at lubber@ceres.org with any questions or for further information.

Sincerely,

State Treasurers, State/City Comptrollers & Controllers, Pension Funds, Labor

Richard Ferlauto
Director, Corporate Governance and Pension Investment
AFSCME

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California Public Employees' Retirement System

Jack Ehnes
Chief Executive Officer
California State Teachers' Retirement System
Connecticut Retirement Plans and Trust Funds

Cllr. Ian Greenwood
Chairman
Local Authority Pension Fund Forum (LAPFF)

William G. Clark
Director
New Jersey Division of Investment

Orin S. Kramer
Chair
New Jersey State Investment Council

William C. Thompson, Jr.
Comptroller
New York City

[3] See Investor Petition requesting interpretive guidance on climate risk disclosure, Sep. 18, 2007, *available at* http://www.sec.gov/rules/petitions/2007/petn4-547.pdf and Supplemental Petition, June 12, 2008, *available at* http://www.sec.gov/rules/petitions/2008/petn4-547-supp.pdf.

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Financial Services Firms, Asset Managers, Other Leaders in Investing

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Bennett Freeman
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cc: Commissioner Kathleen L. Casey
Commissioner Elisse B. Walter
Commissioner Luis A. Aguilar
Commissioner Troy A. Paredes