July 20, 2016

Brent J. Fields
Secretary
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Secretary Fields:

This letter is in response to Releases No. 33-10064 and No. 34-77599, requesting comment on Regulation S-K provisions applicable to U.S. reporting companies. The requests include questions of sustainability, including climate change, which are of particular significance today.

Climate change is the single biggest economic risk the world faces today. As a nation, we want to avoid the worst outcomes, and so many individuals and organizations are working hard on reducing the carbon emissions released into the atmosphere. But no matter what actions we take tomorrow, there are climate risks that have already been “baked in” to the economy.

Investors face the important question of how different sectors and companies are accounting for and measuring climate risks, and how prepared they are to build up resilience against those risks. The ‘34 Act requires that investors, and the broader American economy, are given answers to these questions.

As former Secretaries of the Treasury, we all have deep experience with the importance of recognizing and accounting for material risks across the U.S. economy. We have continued to apply that experience as active members of the Risky Business Project (RBP), and in that capacity we have called for recognition and accounting of the specific economic risks climate change poses to the American economy.

RBP’s inaugural 2014 report underscored that climate risk should be measured in a similar way to other material risks to specific industries and sectors—that is, included in basic risk accounting and disclosure. As such, RBP’s work directly relates to the legal requirement that companies disclose, in a meaningful fashion, the climate risks they face. Even if we can’t always quantify these risks, they are real and material and must be fully disclosed. Boilerplate language does not meet this test, and should not be accepted as satisfying the material risk disclosure requirements of federal law.

Meaningful disclosure will likely vary by industry. The Risky Business Project research shows that while climate risks are significant across the entire U.S. economy, they manifest very differently across regions of the country and sectors of the economy. For example:
• **Agricultural companies**: Extreme weather events, heat, and humidity can materially affect the industry’s production efficiency and supply chain. According to RBP research, some states in the Southeast, lower Great Plains, and Midwest risk up to a 50% to 70% loss in average annual crop yields (corn, soy, cotton, and wheat), absent agricultural adaptation.

• **Commercial and residential real estate**: Sea level rise and increased storms are expected to have significant consequences on coastal property and infrastructure. If we continue on our current path, by mid-century we are likely to see substantial property loss in key coastal communities, especially along the Eastern seaboard.

• **Manufacturing industry**: Dangerous levels of extreme heat and rising seas may cause large disruptions in supply chain operations and labor productivity—especially as many manufacturing plants are located in high-risk areas such as the Southeast.

Recent research from the Sustainability Accounting Standards Board (SASB) underscores these findings. SASB finds climate change is likely to have material financial impacts on companies in 72 out of 79 industries, representing 93% of the U.S. equity market, or $33.8 trillion.

But even though the ‘34 Act requires disclosure of material climate risks, companies continue to disclose these risks poorly, if at all, using mostly boilerplate language that fails to inform or suit investors’ needs. This language may in fact serve to minimize the importance of climate risk to the economy because of its lack of specificity.

The SEC issued groundbreaking guidance on the materiality of climate risks in 2010. This guidance covered risks associated with legislation and regulation related to climate change and its physical impacts, including floods and droughts. While we appreciate the SEC’s 2010 interpretive guidance on climate change-related disclosure, we recommend that the Commission now move to promote and enforce mandatory and meaningful disclosures of the material effects of climate change on issuers, and also that the SEC work to provide more industry-specific guidance on how to account for climate risk.

If investors are to effectively evaluate climate risk, they need a far better understanding of granular, industry-specific climate impacts, with industry-specific standards by which to evaluate corporate performance on these issues. By adopting a set of industry-based market standards for disclosure in SEC filings, investors will be able to accurately compare and contrast companies.

We urge the SEC to outline what is likely to be material for companies in a given industry and region, and provide disclosure standards for information in a manner that can be compared and benchmarked. Implementing these updated standards would significantly increase the quality of information available to investors.
Developing this level of granular climate risk information is not easy, but it is necessary to adequately account for the real impacts of climate change to the American economy. We appreciate you soliciting feedback, and urge you to have this process lead to legally-required, meaningful disclosure of climate risks.

Sincerely,

Henry M. Paulson
74th Secretary of the Treasury
Co-Chair, Risky Business Project

Robert E. Rubin
70th Secretary of the Treasury
Member, Risky Business Project

George P. Shultz
62nd Secretary of the Treasury
Member, Risky Business Project