

Transparency: Risk or Opportunity?

Disclosure in depth – Climate Change

Monday, September 22, 2008

The Harvard Club of NYC

ADVISORY ,TAX

Climate Change: A New Business Reality

“Climate change...is now widely regarded as one of the most serious challenges the world faces, with consequences that go far beyond its effects on the environment.” - Tim Flynn

IPCC 2007:

Very High Confidence that the net effect of human activities since 1750 has been one of warming.

Consequences:

Flooding, Droughts, Food Shortages, Spread of disease

Stern Report:

Cost of inaction would be between 5% to 20% of global GDP.
Cost of Action would be 1% of global GDP

Goldman Sachs:

Adaptation will require Policy Action & Political Capital

McKinsey:

60% of Executives consider climate change within their overall strategy

Lehman:

Climate Change stands to shape, possibly quite fundamentally, the economic environment



Preparing for Climate Change

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Emerging trends:

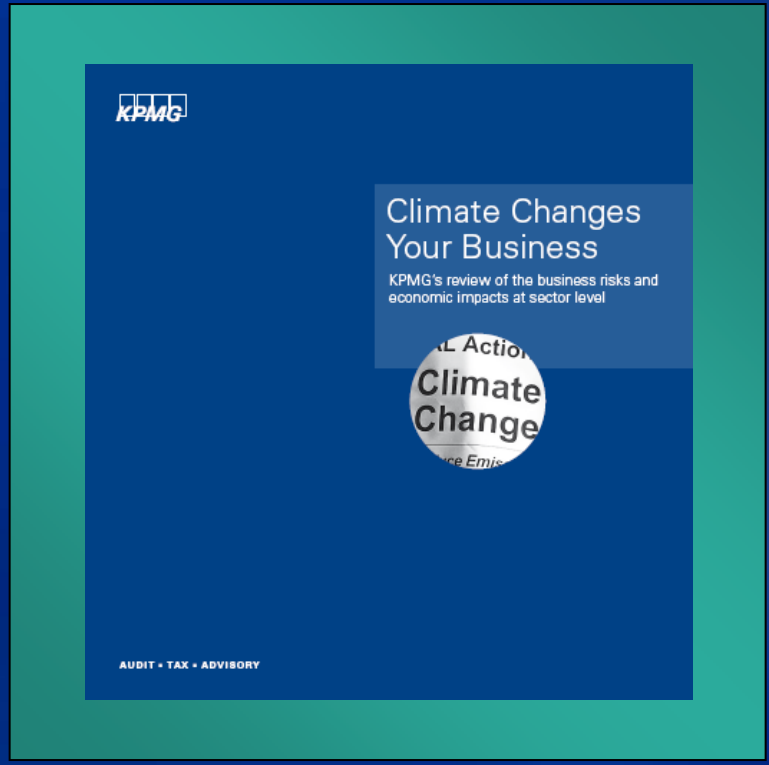
- **Regulatory risk**
 - Congressional affairs: Congress has introduced more than 200 bills, resolutions and amendments specifically addressing global climate change and greenhouse gas emissions;
 - A growing number of States have set greenhouse gas emission reduction targets: Cut carbon dioxide emissions from electricity generating units by 10% below 2009 levels by 2019 (Northeast RGGI).
- **Business response**
 - US Climate Action Partnership: Core principles:
 - Mandatory approaches to reduce greenhouse gas emissions from major emitting sectors of 60% to 80% by 2050;
 - Creating a price signal for carbon, e.g. through cap-and-trade and tax.

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Emerging trends:

- **US lawsuits**
 - Massachusetts vs. EPA: US Supreme Court recognizes Greenhouse gas emissions are air pollutants under Title II of the Clean Air Act;
 - Claims against business: NY AG subpoena of 5 large power companies re. undisclosed climate risks.
- **Disclosure**
 - Carbon Disclosure Project: Collaboration of over 300 institutional investors with more than \$40 trillion in assets;
 - Climate disclosure petition to SEC;
 - First agreement to disclose global warming risk.

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Climate Changes Your Business

KPMG's review of the business risks and economic impacts at sector level

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Four types of risk:

Direct risks

Physical



Indirect risks

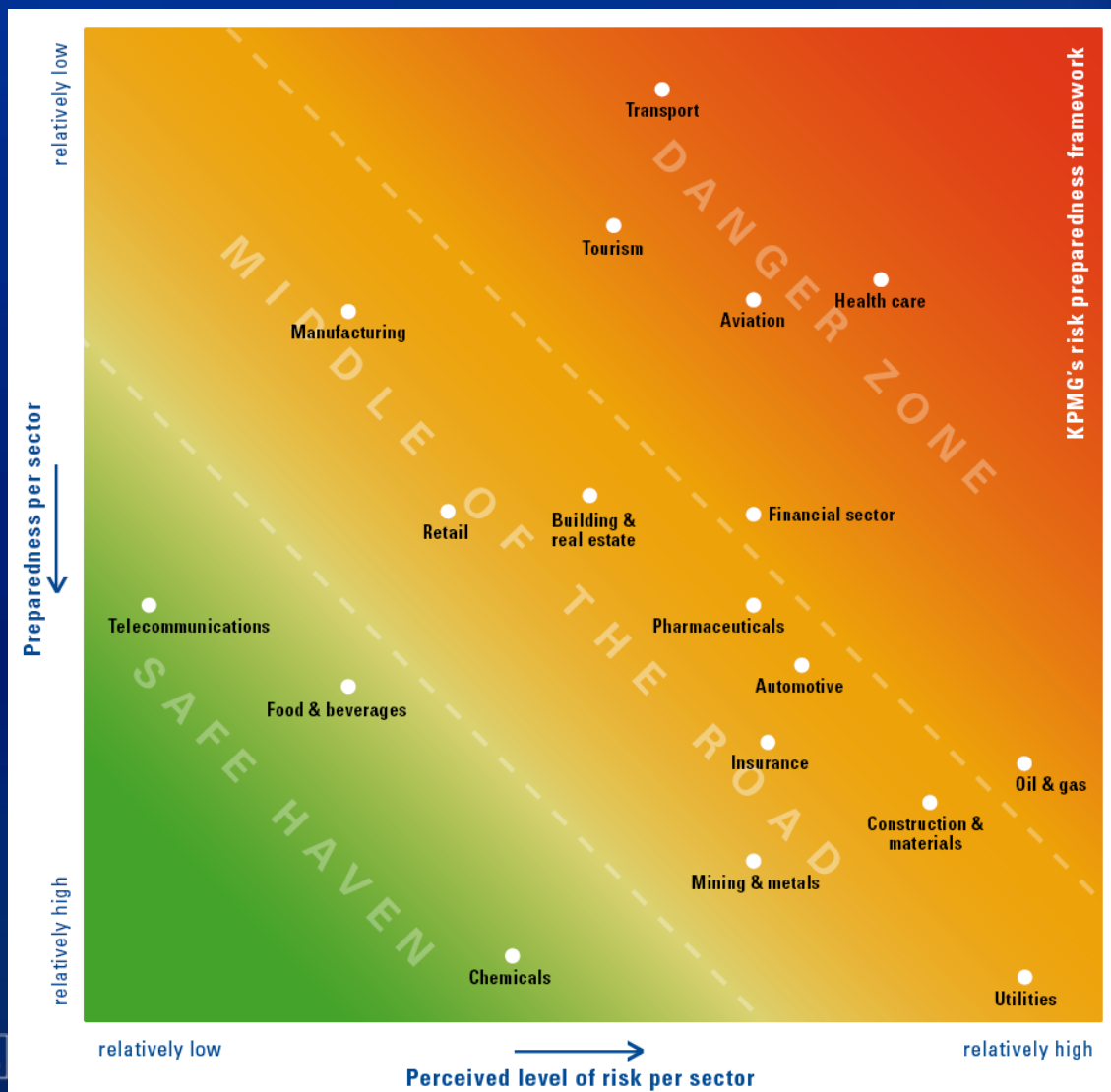
Regulatory

Reputation

Litigation



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Sector classification:

- ◆ 'Danger zone': risk is markedly greater than preparedness
- ◆ 'Middle of the road': risk is roughly matched to preparedness
- ◆ 'Safe haven': reasonably high level of preparedness for relatively low risks

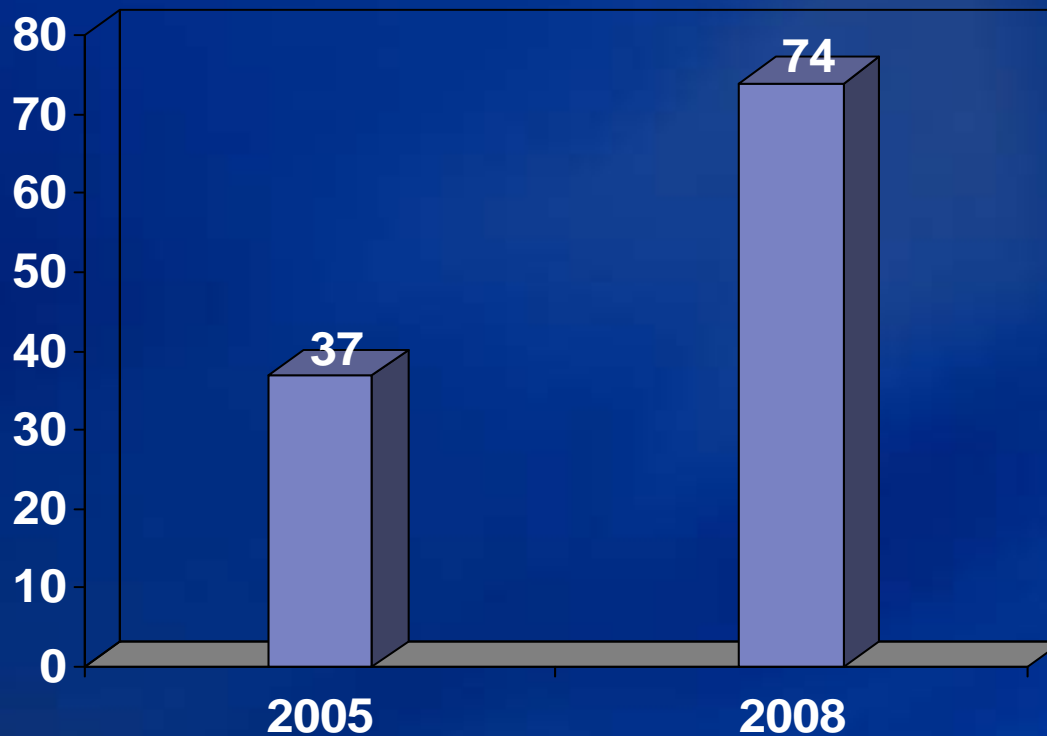
Source: KPMG's Risk Preparedness Framework



Trends in Sustainability Reporting

Trends in Reporting

Doubling of Corporate Responsibility Reports among U.S. Fortune 100 between 2005 and 2008

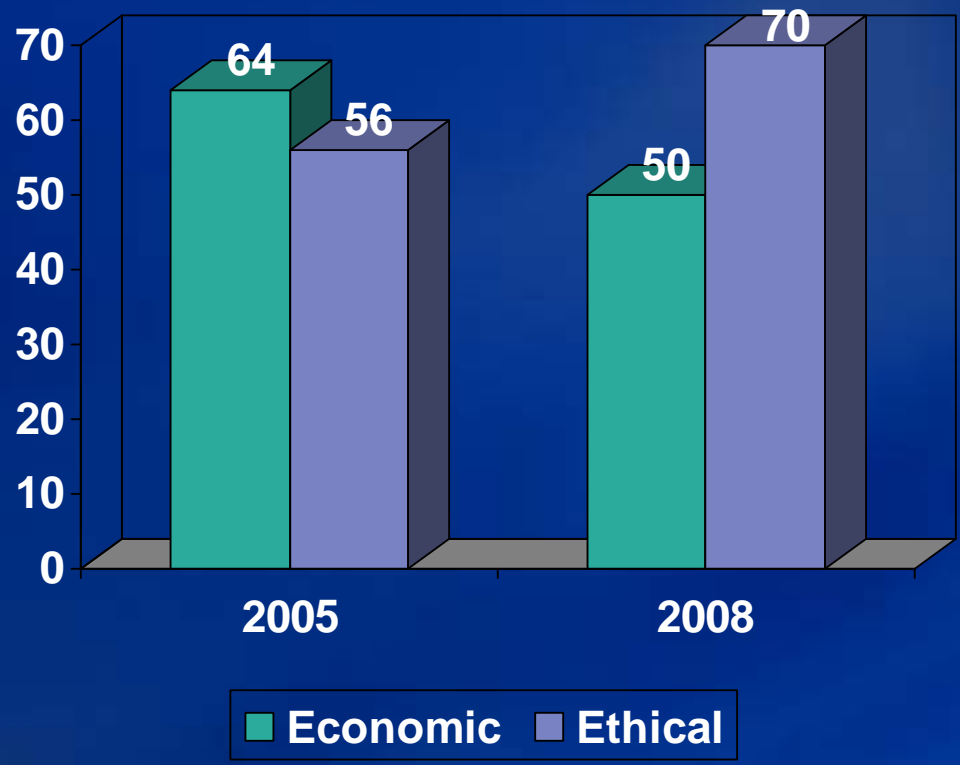


Source: KPMG 2008
International Survey of
Corporate
Sustainability
Reporting

Trends in Reporting

What is driving reporting?

Ethical considerations are now cited as the *primary driver* for reporting

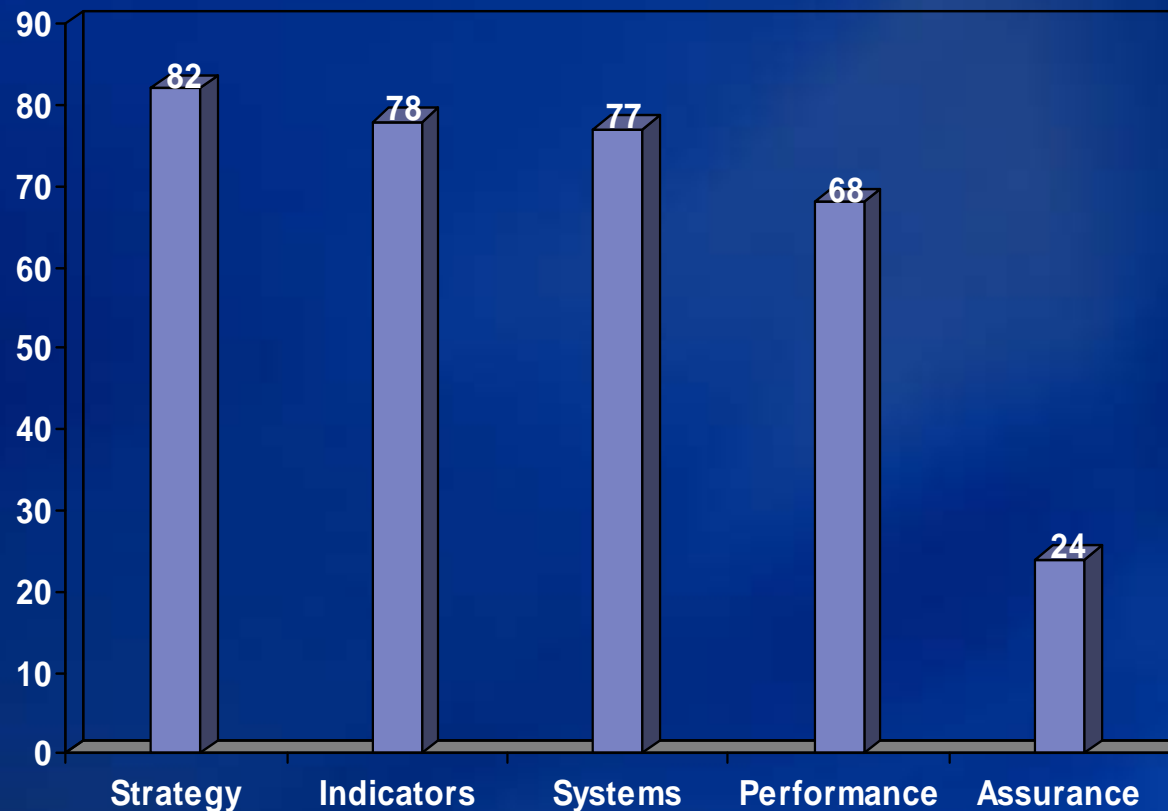


Source: KPMG 2008 International Survey of Corporate Sustainability Reporting

Trends in Reporting

An Embedding of Corporate Responsibility

Internal Corporate Responsibility Programs Mature

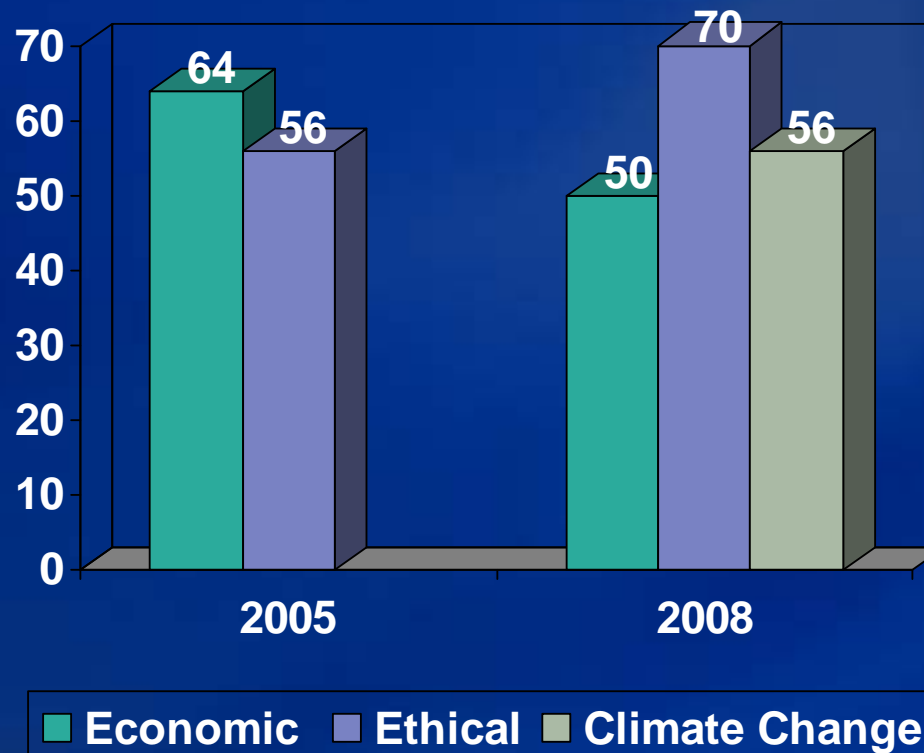


Source: KPMG
2008 International
Survey of
Corporate
Sustainability
Reporting

Trends in Reporting

What is driving reporting?

Climate Change is also a leading driver of reporting



Source: KPMG 2008 International Survey of Corporate Sustainability Reporting

Trends in Reporting

Climate Change in Corporate Sustainability Reporting:

Glass Half Full?

- 56% of the U.S. F100 address the business risks presented by it.
- 42% discuss opportunities.

Fears

- 57% cited physical risks
- 23% cited regulatory risks
- 14% cited reputational risks

Trends in Reporting

Corporate Responses to Climate Change:

- 41% of the U.S. F100 are members of the Carbon Disclosure Project;
- 38% disclose their carbon footprints;
- 36% discuss reducing energy consumption;
- 26% discuss fuel switching;
- 20% discuss emissions offsets.



Question & Answer

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