

March 12, 2018

LEGAL CONSIDERATIONS FOR CORPORATE CLIMATE SCENARIO ANALYSIS

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“Materiality” Will Remain a Core Issue

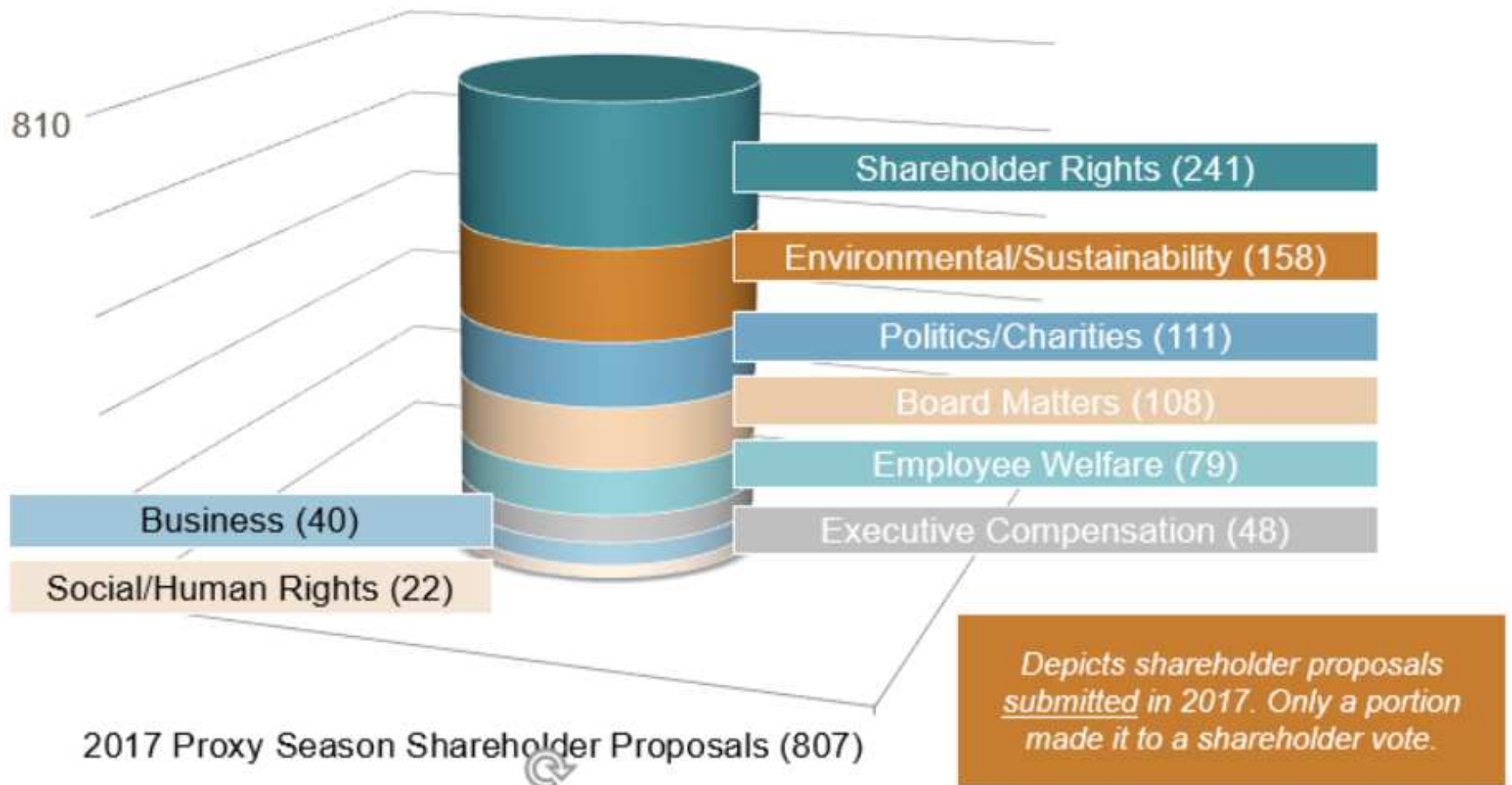
- SEC definition of “material”: “a substantial likelihood that a reasonable investor would consider it important”
- SEC has also specified potential trigger areas:
 - legislation/regulation
 - international agreements
 - indirect consequences of regulation or business
 - physical impacts
- Materiality is effectively in the eyes of management

MATERIALITY (Cont'd)

- A critical mass of companies effecting new disclosure could change the calculus
- IHS Markit: TCFD a “radical departure from established concepts”:
 - departure from established concept of materiality
 - metrics that are not correlated with financial risk and opportunity
 - misuse of scenarios
 - disclosure of confidential business information
 - inappropriate scope
 - lack of agreement on defining carbon-related assets and measures of risk.
- How long can U.S. and Europe remain divided?

INVESTOR SENTIMENT

Investors Applied Significant Pressure on Issuers in 2017



* Based on data from Institutional Shareholder Services as of June 30, 2017 and V&E analysis.

INVESTOR SENTIMENT (Cont'd)

Climate Reporting Was a Top Category of Investor Demand

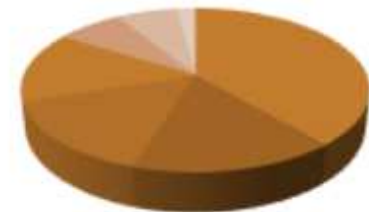
Executive Compensation (47)

- Incentives (32)
- ESG Incentives (10)
- Policy Report (5)



Environmental/Sustainability (158)

- Climate Change (67)
- Supply Chain (24)
- Sustainability (22)
- Health/Waste (21)
- Alternative Energy (11)
- Packaging (10)
- Animal Welfare (3)



Business (40)

- Ethical Business (15)
- Drug Prices (11)
- Maximize Value/Strategic Review (5)
- Operations/Risk (3)
- Operations (1)
- Other (5)



Board Matters (107)

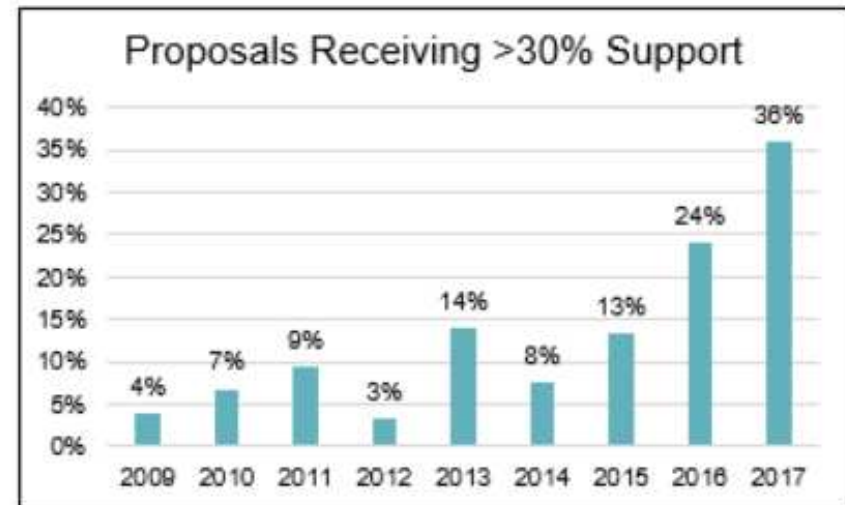
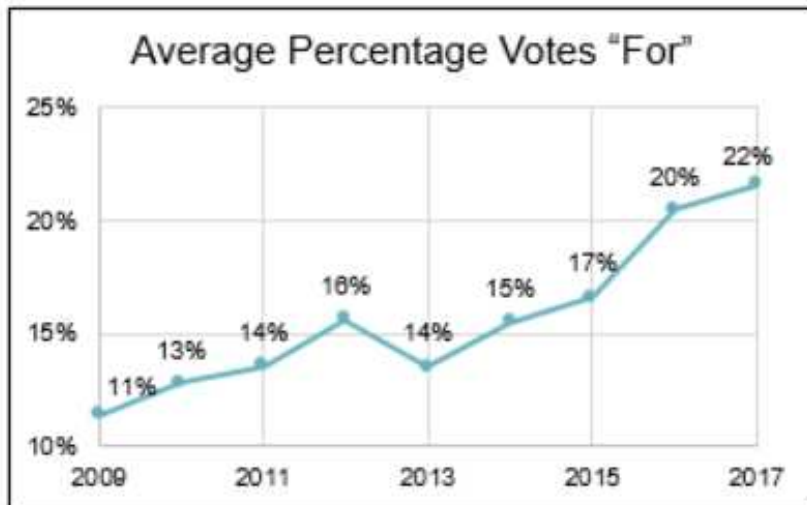
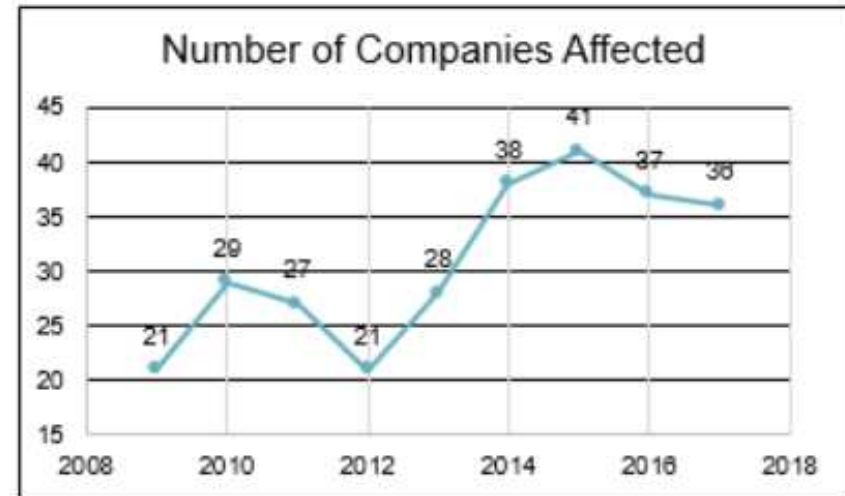
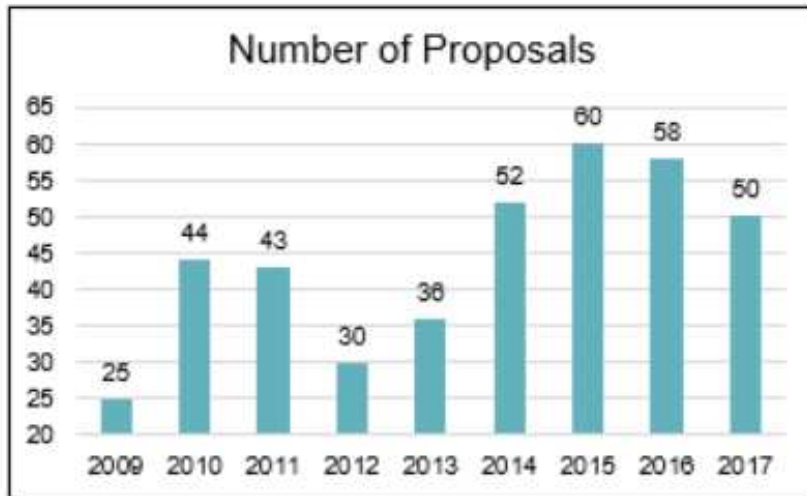
- Independent Chair (46)
- Diversity (33)
- Declassification (10)
- Audit (5)
- Environmental/Social Qualification (6)
- Other (7)



* Based on data from Institutional Shareholder Services as of June 30, 2017 and V&E analysis.

INVESTOR SENTIMENT (Cont'd)

Environmental Shareholder Proposals in the Fortune 250



* Based on data from Institutional Shareholder Services as of June 30, 2017 and V&E analysis.

The 2C Proposal

Publish an annual assessment of long term portfolio impacts of public climate change policies, at reasonable cost and omitting proprietary information. The assessment can be incorporated into existing reporting and should analyze the impacts on [the company's] oil and gas reserves and resources under a scenario in which reduction in demand results from carbon restrictions and related rules or commitments adopted by governments consistent with the globally agreed upon 2 degree target. The reporting should assess the resilience of the company's full portfolio of reserves and resources through 2040 and beyond and address the financial risks associated with such a scenario.

INVESTOR SENTIMENT (Cont'd)

Selected Leading Asset Managers Supporting Environmental Proposals, 2013–2016 Ranked by Approximate AUM (\$bns)*



* As of May 1, 2017 based on public disclosures of prior two years.

INVESTOR SENTIMENT (Cont'd)

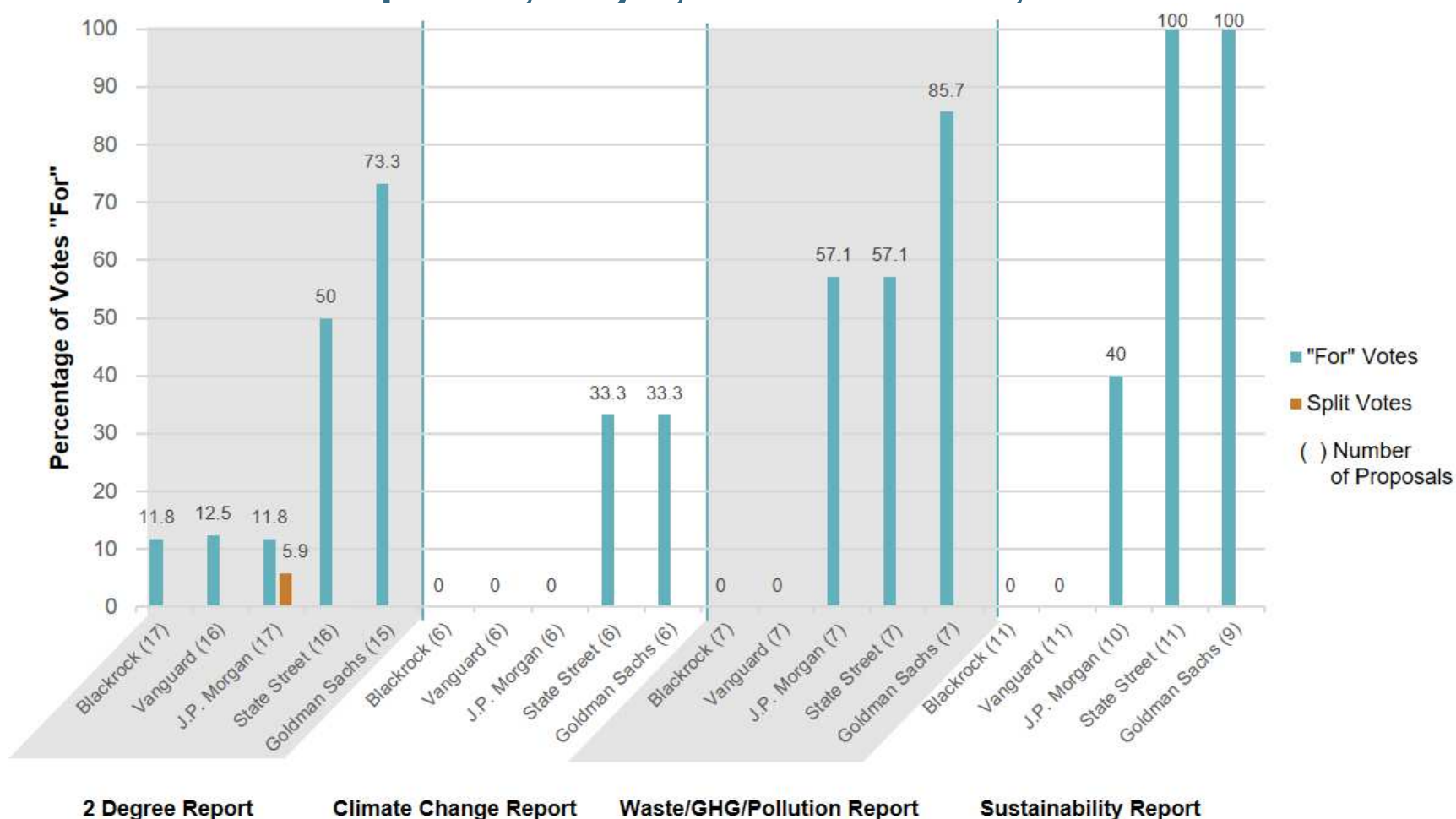
Voting Results on 2 Degree Celsius Proposals – 2017 Proxy Season

Company	Proponent	Meeting Date	% Votes For*
The AES Corporation	Mercy Investment Services, Calvert Investment Management, <u>Everence Financial</u> , The Presbyterian Church (USA), et al.	April 20	37.4*
Noble Energy, Inc.	The Presbyterian Church (USA), Dignity Health, Mercy Investment Services, Portico Benefit Services	April 25	22.5*
Marathon Petroleum Corporation	Mercy Investment Services	April 26	39.4*
Ameren Corporation	Mercy Investment Services, Portico Benefit Services	April 27	43.7*
<u>DTE Corporation</u>	New York State Fund, <u>Everence Financial</u> , et al.	May 4	45.0
Duke Energy Corporation	New York State Comptroller, <u>Everence Financial</u>	May 4	44.9*
Dominion Energy Inc.	New York State Comptroller	May 10	47.8
Occidental Petroleum Corporation	CalPERS, <u>Wespath Investment Management</u> , Nathan Cummings Foundation	May 12	65.7*
FirstEnergy Corp.	As You Sow	May 16	43.4
PNM Resources, Inc.	Max and Anna Levinson Foundation	May 16	45.2*
<u>PPL Corporation</u>	New York State Comptroller	May 17	56.8
The Southern Company	Interfaith Center on Corporate Responsibility	May 24	45.7
ExxonMobil Corporation	New York State Common Retirement Fund	May 31	62.3
Devon Energy Corporation	As You Sow	June 7	40.9*

* Percentage reflects votes cast "for" over votes cast for and against. Where asterisked, percentage reflects votes cast for over votes cast for, against and abstentions.

INVESTOR SENTIMENT (Cont'd)

Selected Leading Asset Managers Voting on Environmental Shareholder Proposals, July 1, 2016 – June 30, 2017



* Based on data from Proxy Insight as of October 1, 2017 and V&E analysis. "Split Votes" indicates at least one fund voted for the resolution. US companies only.

BROAD LEGAL CONSIDERATIONS

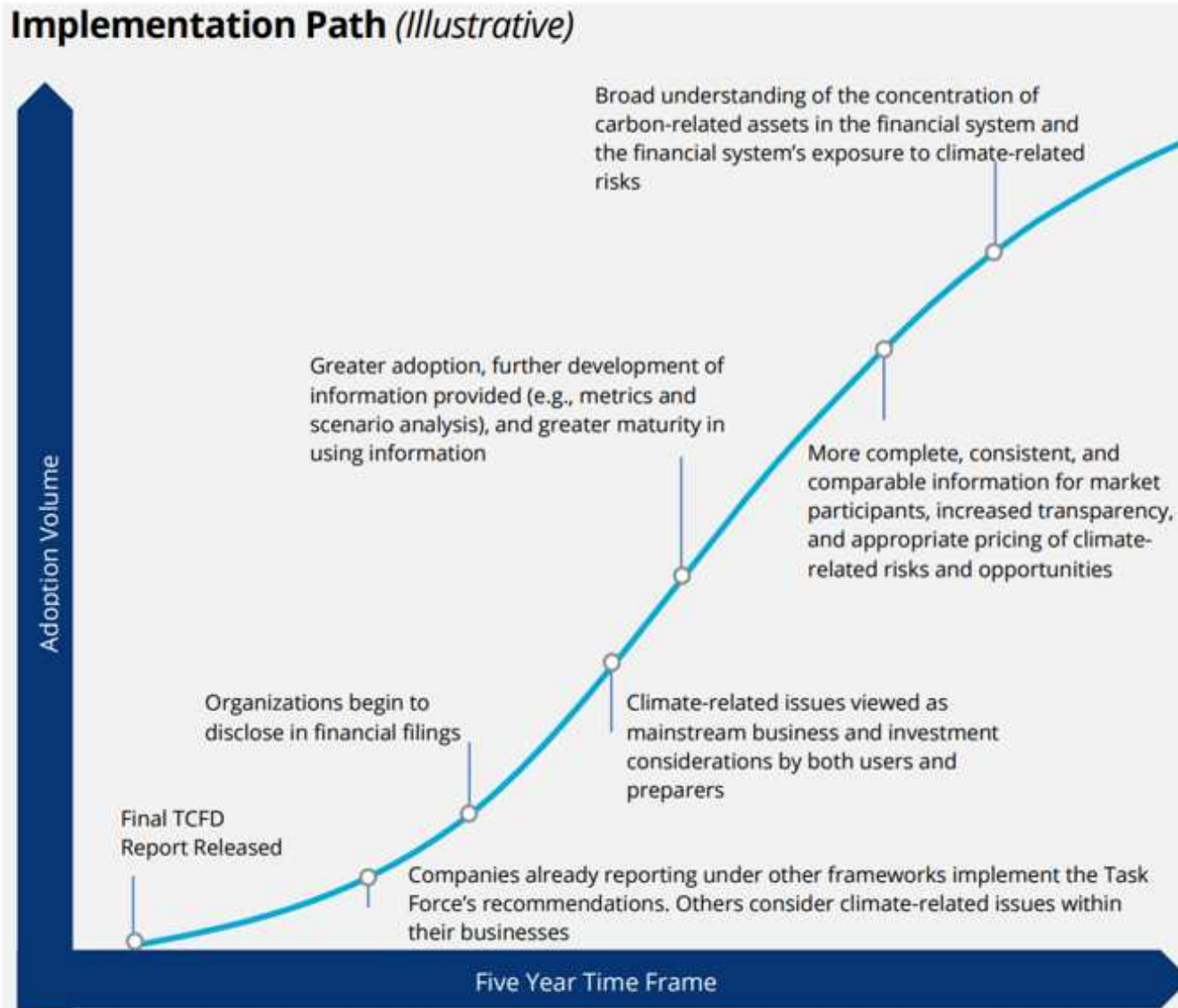
Interlocking Dimensions of Responding to Enhanced Disclosure Demands



Uncoordinated Action Creates Risks

- litigation
- undermine regulatory standing or agenda
- mislead investors or omit material facts
- confuse or distract investors
- lead to over-disclosure in a voluntary context
- create unwanted benchmarks for company or industry
- aggravate proxy advisory services
- prompt “withhold the vote” risks
- jeopardize relations with public, customers, clients and employees
- facilitate a shareholder proposal that successfully substitutes for thought leadership of management

TASK FORCE EXPECTATIONS



ISSUER PUSHBACK

“Oil and natural gas will continue to fulfill a significant portion of global energy demand for decades to come—even in a carbon-constrained scenario.”

“The products Chevron develops are indispensable to the economies of the world.”

“Energy is one of the fundamental drivers of sustained economic growth and human progress, and over the past 150 years fossil fuel energy has enabled the greatest advancements in living standards in recorded history.”

“Even under an aggressive climate policy scenario such as the IEA’s 450 Scenario, oil and natural gas will meet 44 percent of global energy demand by 2040.”

“... the possible risk from 'stranded assets' is minimal and certainly manageable.”



**managing climate
change risks**

a perspective for investors

human energy

DISCUSSION QUESTIONS

- From a legal perspective, what are some of the benefits of conducting climate scenario analysis?
- How can companies promote consistency in their analysis of climate change across voluntary reporting questionnaires, investor reports, and financial filings?
- Could you talk a little bit about how the understanding of materiality may evolve through case law? What considerations should companies be aware of?
- For multinational companies with assets in different jurisdictions, could you discuss some of the considerations they should be aware of with respect to corporate climate reporting and scenario analysis?



THANK YOU

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