



August 3<sup>rd</sup>, 2009

The Honorable Mary L. Schapiro  
Chairman  
United States Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Dear Chairman Schapiro,

Over the course of this year, the SEC requested the Social Investment Forum (SIF) to provide a vision of what mandatory Environmental, Social and Governance (ESG) disclosure should look like. On July 21, Lisa Woll, CEO of the Social Investment Forum delivered to you a letter setting out that vision, signed by 50 prominent member of SIF. A key element of the proposal is the use of XBRL for the tagging of the information to enable more effective consumption by the SEC and the investor community.

As there are no signatories from the XBRL community, as both the former Chairman of the XBRL US Steering Committee and as a keen advocate for effective ESG reporting, I would like to add my support, and to provide some additional comments.

### **Support ESG**

It has become abundantly clear that the financial statements and information provided in annual and quarterly filings with the SEC represent only a subset of the information required and used to consider the actual market value of listed companies. Various surveys have consistently linked approximately 70-80 percent of Standard & Poor's market value to intangibles<sup>1</sup>. The inclusion of ESG information will help to fill that gap, and will provide investors with additional information upon which to make sound long term investment decisions.

In addition, a requirement for the inclusion of such information will act to consolidate the already very

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<sup>1</sup> Keith Cardoza, J. Basara, L. Cooper, and R. Conroy, "The Power of Intangible Assets: An Analysis of the S&P 500®," *les Nouvelles* (Licensing Executives Society), Vol. XLI, No. 1, March 2006; John Ballow, R. Burgman, and M. J. Molnar, "Managing for Shareholder Value: Intangibles, Future Value, and Investment Decisions," *Journal of Business Strategy*, Vol. 25, No. 5, 2004; Robert Eccles, "The Performance Measurement Manifesto," in *Measuring Corporate Performance*, Harvard Business School Press, 1991.



broad range of ESG report standards.

### **Reporting requirement already exists**

I believe that Regulation S-K already provide a framework sufficient to require the reporting of ESG information, albeit in the MD&A, and an area of reporting that is not currently tagged in the XBRL format.

There is already the requirement under §229.303 for companies to "Describe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations."

I believe that Climate Change and the wide range of potential negative impacts, raises to the standard of a "known trend", or at a minimum, based on the overwhelming amount of scientific research undertaken to date, an "uncertainty". Equally, Social and Governance issues have a significant impact on liquidity and operations, and therefore should rise to the level of "known trends" or "uncertainties".

The SEC has acted on the "known trend" or "uncertainty" clause before, when Y2K reporting was mandated. At that time the SEC also took the bold step of stating that boilerplate reporting would not be acceptable, and that filers had to provide detailed discussion of their plans, including potential impact on customers, and the cost to address. "No net impact" was not an acceptable response. The SEC's actions in relation to Y2K could form the basis for similar action in relation to Climate Change and ESG reporting.

### **A standard would help, but w standard?**

The SEC should exercise significant caution when selecting the ESG standard or standards that would be required for ESG reporting. Each standard has advantages and disadvantages. For example, the Global Reporting Initiative (GRI) G3 has become the assumptive standard for the creation of ESG reports, and is recommended by the SIF as the basis for mandatory ESG reporting in the MD&A.

The GRI G3 standard's greatest strength is its flexibility, allowing reporting companies to pick and choose what they will report, and through the G3 Index, allows companies complete freedom in the formatting and construction of their reports. Conversely, the greatest weakness of the GRI G3 standard is that very flexibility, which allows companies to report only what they want to report, thus allowing and encouraging the crafting of messages designed to either reduce negative messages, or to promote positive messages - in a word, "marketing". The GRI's standards creation process has very effectively brought together a range of stakeholders (from Companies, to Unions, Civil Society and NGOs, and representatives of the Investment community) to create the standard. This stakeholder engagement has been critical to the success of the GRI, and ensures that the range of stakeholders' expertise and needs



are included in the resulting standard.

The Carbon Disclosure Project provides another standard for consideration. As discussed in the SIF proposal, the CDP reaches out to over 3700 organizations every year. Not all respond, and those that do not are listed as "Declined to participate" on the CDP website. While the CDP questionnaire focuses specifically on CO<sub>2</sub>, with over 3000 participants in the 2008 survey, the CDP results could form a sound starting point for mandatory ESG reporting, especially as many companies would be able to include their CDP responses in the filings at virtually no additional administrative burden - the information has already been, or is already being collected and reported to the CDP.

The World Intellectual Capital Initiative (WICI) - not mentioned in the SIF proposal - provides a third example of a potential framework for ESG reporting. The WICI framework is derived from the Enhanced Business Reporting Consortium's work over the past years, while also bringing together interested parties (business, governmental, higher education and NGOs) from around the world.

The SEC may determine that no single standard is sufficient to provide the full range of ESG information that should be provided to the investment community. Regardless, sufficient standards exist to allow the SEC to initiate a process of requiring ESG reporting by registrants.

### **XBRL is part of the answer**

The SEC has mandated the use of XBRL for annual and quarterly filings, with a roll-out over a three year period. The first such filing have arrived quarter. First year filings are required to "tag" the primary financial statements only (and "block tag" notes), with "detailed tagging" of notes in subsequent years. There is no requirement to "tag" the MD&A.

The proposal from SIF recommends that the "SEC issue interpretative guidance to clarify that companies are required to disclose short- and long-term sustainability risk in the Management Discussion and Analysis section of the 10-K (MD&A)."

It would be unfortunate if such disclosures were to be included in the section of the 10-K (and 20-F) that is not required to be provided in the XBRL format. Failure to require this information in the XBRL format would dilute the potential benefit to the investment community that the SEC already states will be provided through the use of XBRL.

Of course, none of ESG standards as yet have effective and usable XBRL taxonomies, but I expect that to change. A proposed Rule requiring ESG reporting, or an interpretation stating that Reg S-K requires ESG reporting, would no doubt ensure completion of the appropriate taxonomies well before such a ruling becoming final.



## MD&A needs to be included in tagged data

Should the SEC take the step of requiring ESG reporting, and if the MD&A is the appropriate place for such reporting, the SEC should take the further step of requiring that the MD&A be tagged using the XBRL format.

### Summary

I would like to commend the SEC for reaching out and requesting additional information and recommendations for the introduction of mandatory ESG reporting by registrants. The SIF proposal clearly spells out the imperative from the investor side, and provides some recommendations, and while there are some very good recommendations in their proposal, I recommend the SEC view those as an initial set of proposals. There is much work still to do before a combined, effective and comprehensive set of reporting requirements could be proposed, and changes to the current XBRL reporting requirements would need updating to include the MD&A.

Finally, I believe existing requirements as spelled out in Reg S-K already provide the SEC with the ability to demand ESG reporting from registrants. Climate Change clearly rises to the standard of a "known trend" or "uncertainty", and the SEC should require comment from all filers.

Kind regards,

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cc: Commissioner Luis A. Aguilar  
Commissioner Kathleen L. Casey  
Commissioner Troy A. Paredes  
Commissioner Elise B. Walter