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**Fossil fuel companies found paying lip-service to climate risks**

London, 14 October 2014: New research by the Carbon Tracker Initiative (CTI) today reveals that 99% of sampled coal, oil and gas companies recognise climate change poses a risk to their businesses – but perpetuate investor uncertainty with only 7% of companies providing evidence of adequately integrating this risk into corporate project and capital expenditure assessments.

This research provides evidence that investors are receiving insufficient information flows on the vulnerabilities of companies to alternative demand and price futures. Financial regulators and reporting standard setting bodies must significantly increase their scrutiny of the assumptions fossil fuel companies make about future climate trajectories, in order to build ‘climate literate’ capital markets.

*“Governor of the Bank of England, Mark Carney, acknowledged last week that the majority of oil reserves are ‘unburnable’[[1]](#footnote-1) and that when it comes to the environment, there is a ‘tragedy of horizons’.[[2]](#footnote-2) To ensure financial actors look more to the long-term on these matters, regulators must increase scrutiny on how climate risk is properly disclosed by listed fossil fuel companies, the most affected sector,” said* **Mark Campanale, Founder and Executive Director, Carbon Tracker.**

*“With the IEA forecasting that $23 trillion will be invested in expanding the fossil fuel sector up to 2035, putting this amount of capital at risk doesn’t leave much room for complacency in how climate risks are disclosed,”* Mark continues.

*‘Recognising risk, perpetuating uncertainty’* analyses the disclosures of 81 fossil fuel companies[[3]](#footnote-3) to CDP’s 2014 climate change questionnaire and Ceres and CTI’s Carbon Asset Risk initiative investor letters. These responding companies reflect a ‘best in class’ sample – the 24% of fossil fuel companies that received CDP’s 2014 climate change questionnaire and responded.

Every company in the sample acknowledges the existence of climate change as an issue. 86% go on to highlight physical risks presented by climate change to its business. 99% see potential regulatory risks arising, in particular carbon taxes and cap and trade schemes.

However, these companies are failing to connect the dots by providing detailed information on resilience to low demand and price futures consistent with carbon constraints. Only one fifth (21%) of sampled companies display evidence of running scenario analyses of different temperature increases. Just 7% of this ‘best in class’ sample undertake adequate risk assessment and use these scenarios to stress-test their project portfolio and capital expenditure plans against a 2°C world.

Only one company discloses the prices used to stress-test investments, and none disclose the outcomes of their stress-testing, meaning investors remain without quantitative data to objectively benchmark and gauge exposure to climate-related risk across companies. Therefore, we recommend that:

* Companies disclose, preferably under a separate heading, the carbon embedded in their coal, oil and gas reserves and resources; and details relating to resilience in a low price/demand scenarios;
* Securities regulators and financial reporting standard setting bodies require stress-testing of the potential impact due to reduced demand and prices on a companies’ high carbon assets, as well as guidance on the interpretation of existing standards, e.g. IAS 36, related to carbon asset stranding; and
* Voluntary reporting guideline setters to include technical guidance on reporting the carbon dioxide emissions potential of coal, oil and gas reserves.

*“This report highlights the vast gulf between what investors are looking for and what energy companies are not providing in regards to financial risks from high carbon, high cost fossil fuel projects. Investors should step up their calls to companies to better explain these huge expenditures.” –* **Mindy Lubber, president of the sustainability advocacy group Ceres and director of the Investor Network on Climate Risk.**

“*Stranded assets present a material risk to the global economy which has parallels with the risks that precipitated the financial crisis in 2008. Institutional investors need better disclosure from fossil fuel companies on the potential of their reserves to be stranded and details of how they intend to respond to this risk.*

*Given that current accounting rules do not require this, institutional investors and financial market regulators must also take urgent action to ensure this risk is assessed, disclosed and managed.” –* **Paul Simpson, Chief Executive Officer at CDP.**

**Editor Notes:**

The contents of this report were initially discussed at a Carbon Tracker hosted event at the New York Stock Exchange chaired by Timothy E Wirth, Vice Chairman of the board of the UN Foundation, with attendees from the US Securities and Exchanges Commission and US Treasury - <http://www.carbontracker.org/news/climate-risk-disclosures-and-financial-regulation/>

The report ‘A baseline survey of climate disclosures by fossil fuel companies: Recognising risk, perpetuating uncertainty’ will be launched at the Global Investment Forum 2014 at UNCTAD’s Sustainable Stock Exchange Initiative’s Global Dialogue session.

The report will be available from 9am BST on Tuesday 14th October at: <http://www.carbontracker.org/report/climateriskdisclosures>

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**About Carbon Tracker Initiative**

The Carbon Tracker Initiative is a team of financial specialists making climate risk real in today’s financial markets. Our research to date on unburnable carbon and stranded assets has started a new debate on how to align the financial system with the energy transition to a low carbon future. This is the first part of a larger project to assess the abilities of enhanced corporate reporting, accounting and governance practices to increase transparency and protect investor value related to climate risk.

[www.carbontracker.org](http://www.carbontracker.org)

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**About CDP**

CDP is an international, not-for-profit organisation providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. CDP works with market forces, including 767 institutional investors with assets of US$92 trillion, to motivate companies to disclose their impacts on the environment and natural resources and take action to reduce them. CDP now holds the largest collection globally of primary climate change, water and forest risk commodities information and put these insights at the heart of strategic business, investment and policy decisions. Visit [www.cdp.net](http://www.cdp.net) or follow us @CDP to find out more.

1. World Bank seminar on Integrated Reporting, October 10 2014: ‘The vast majority of reserves are unburnable’. [↑](#footnote-ref-1)
2. World Bank seminar on Integrated Reporting, October 10 2014: Mark Carney referred to ‘tragedy of horizons’ – the market failure by which actors including investors, companies and governments are not looking far enough ahead to coming problems like the environment, even though these are known to them. <http://www.emergingmarkets.org/Article/3389530/Carney-raises-the-heat-on-climate-you-cant-burn-all-the-oil.html?LS=Twitter> [↑](#footnote-ref-2)
3. The sample represents those companies that responded to CDP’s 2014 climate change questionnaire, Ceres and CTI’s Carbon Asset Risk Initiative investors letters and were in CTI’s list of the top 200 coal, oil and gas companies by reserves as of the 2013 Wasted Capital and Stranded Assets report. [↑](#footnote-ref-3)