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CLIMATE-RELATED FINANCIAL DISCLOSURES - A LEGAL PERSPECTIVE

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Some Climate/ESG Trivia

TRIVIA QUESTION 1

True or False: Climate change disclosures are mandatory under U.S. Law.

TRIVIA QUESTION 2

How many climate-related shareholder proposals were filed in 2018?

a. 23
b. 58
c. 94
d. 120

TRIVIA QUESTION 3

1. Which of the following energy companies as NOT undertaken voluntary climate change scenario analysis?
    a. Southern Company
    b. Exxon
    c. PPL
    d. Chevron

TRIVIA QUESTION 4

Which of the following is a definition of materiality that is used in climate disclosures?

a. There is a substantial likelihood a reasonable investor would consider the information important

b. The information reflects the organization’s significant economic, environmental, and social impacts or would substantively influence the assessments and decisions of stakeholders

c. It’s material because we asked for it

d. All of the above

TRIVIA QUESTION 5

How many lawsuits has the New York Attorney General field over the adequacy of climate disclosures?

TRIVIA QUESITON 6

Which company filed an EU-Mandated sustainability report with the SEC in 2018?

a. Shell
b. UBS
c. Chevron
d. Citibank

TRIVIA QUESTION 8

Which was the first energy company to suffer a credit downgrade due to climate risks?

a. PG&E
b. Entergy
c. BP
d. Noble Energy

TIE BREAKER QUESTION

In the recently filed NYAG litigation against Exxon, how many shares of Exxon does New York allege are owned by state pension funds and what is their value?

What are Climate-Related Financial Disclosure?

2017-2018: AN EXPLOSION OF REGULATORY AND INVESTOR INTEREST IN ESG

2010: SEC issues climate change disclosure guidance

2011: SEC issues cybersecurity disclosure guidance

2012 - 2014: SEC issues two reports to Congress on climate change disclosures

2017

March 2017: BlackRock and State Street indicate they intend to hold directors responsible for a lack of diversity on their boards

August 2017: Vanguard issues its Investment Stewardship 2017 Annual Report, indicating that climate change and board diversity are priorities

August 2017: State Street issues Perspectives on Effective Climate Change Disclosure

September 2017: NYC Comptroller announces “Boardroom Accountability Project 2.0” pushing for board diversity and board climate expertise

November 2017: New ISS and Glass Lewis policies address board diversity and climate change matters

2018

January 2018: BlackRock issues investor letter emphasizing the importance of corporate social responsibility

February 2018: SEC issues updated cybersecurity disclosure guidance

February 2018: ISS launches Environmental & Social QualityScore

April 2018: SEC brings first cyber-related disclosure enforcement action (Yahoo!)

April 2018: NIST issues updated Framework for Improving Critical Infrastructure Cybersecurity

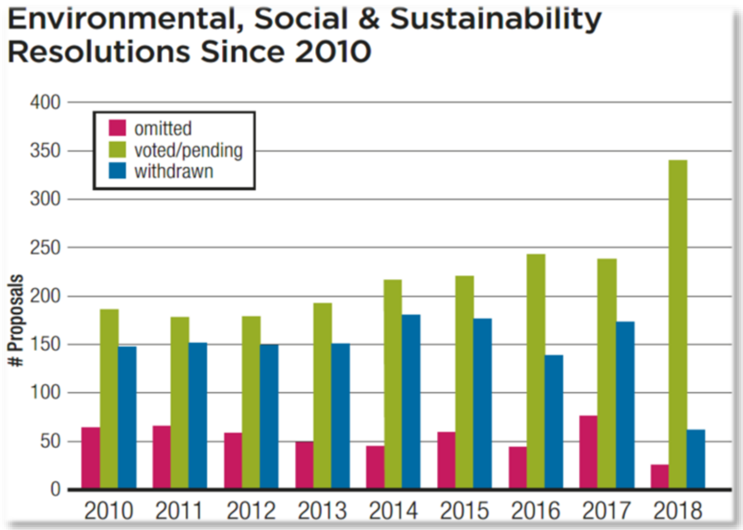
April 2018: DOJ issues an interpretive bulletin regarding plan investments and ESG goals

October 2018: ISS issues FAQs on its new Environmental & Social Disclosure QualityScore

Non-U.S. regulatory developments are likely to be major regulatory drivers (e.g. EU Directive on Non-Financial Disclosures).

THE RAPIDLY GROWING COMPLEXITIES OF THE ESG SPACE

INCREASED INVESTOR INTEREST AND DISCLOSURE



Source: Proxy Preview 2018

ESG Reporting Has More Than Tripled Since 2011

During **2011**, **just under 20% of S&P 500 companies** reported on their sustainability, corporate social responsibility, ESG performance and related topics and issues. In **2017**, **the total rose to 85% of S&P 500 companies** reporting on these matters.*

*Governance & Accountability Institute Research Results (2018)

Major Institutional Investors Have Emphasized the Link Between Environmental Issues and Shareholder Value

BLACKROCK

"Environmental, social, and governance (ESG) factors relevant to a company's business can provide essential insights into management effectiveness and thus a company's long-term prospects" – CEO's Annual Letter to Investors.

STATE STREET

"We call on high-impact sector companies to provide information on the following … areas… [g]overnance and board oversight of climate risk [and] [e]stablishing and disclosing long-term GHG emissions goals…" – SSGA's Perspectives on Effective Climate Change Disclosure.

Vanguard

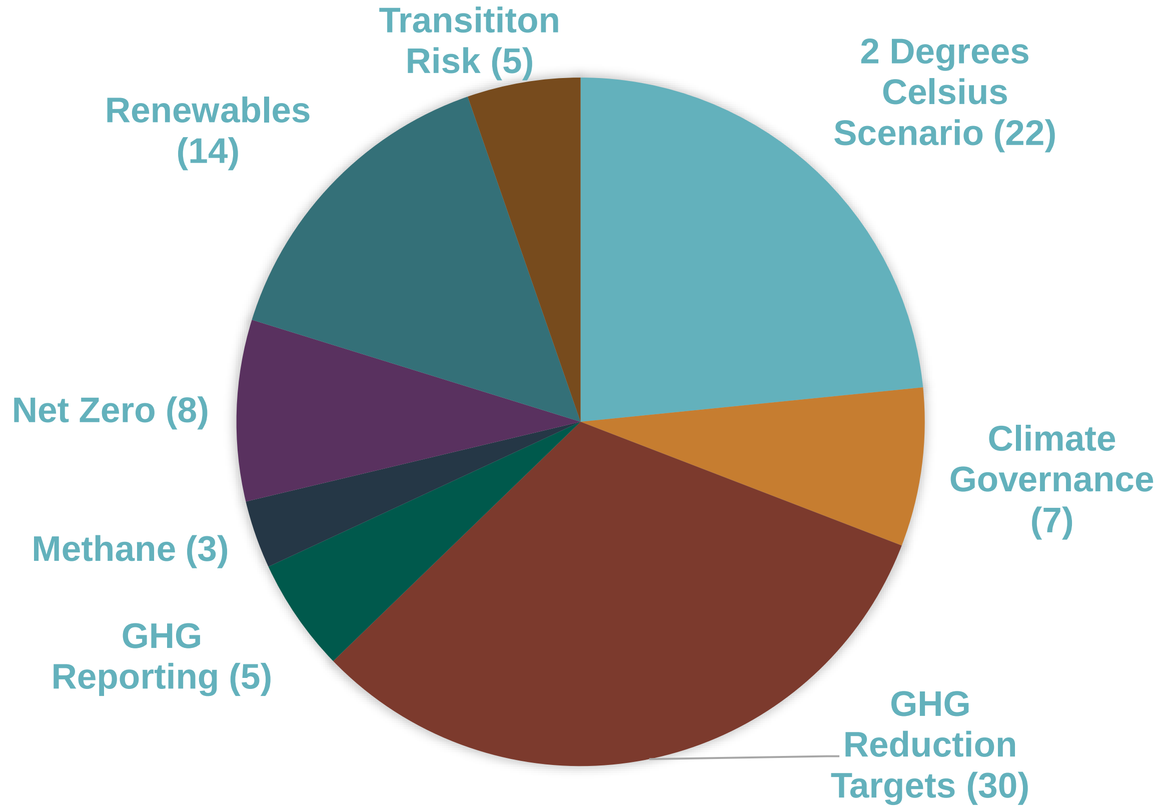
"As the steward of long-term shareholder value for more than 20 million investors, Vanguard closely monitors how our portfolio companies identify, manage, and mitigate risks—including climate risk." – Investment Stewardship 2017 Annual Report.

SHAREHOLDER RESOLUTIONS UNDER THE 14A-8 PROCESS

- There are technically two ways for shareholders to submit shareholder proposals—a shareholder may use the advance notice provision of the company's bylaws or may use Rule 14a-8 to seek to include a shareholder proposal in the company's proxy materials.
- Under Rule 14a-8, a shareholder who has continuously owned at least $2,000 in market value, or 1%, of the company's outstanding shares for at least one year may submit a proposal to be included in the company's proxy statement and voted on at the company's annual meeting.
- Every year, shareholders submit around 1,000 of these proposals. About one-third of the time, companies are successful in negotiating these proposals out or getting them excluded from the proxy statement by submitting a no-action request letter to the SEC.
- Proposals that are included in proxy statements and go to a vote on average do not receive majority support, however, every year there are proposals that do receive majority support, including proposals pertaining to ESG matters. For example, there were four climate change proposals submitted for 2018 meetings that received majority support.

SHAREHOLDER DEMANDS FOR INCREASED CLIMATE REPORTING
2018 U.S. PROXY SEASON PROPOSALS

- 154 proposals on environmental/sustainability issues
  - 94 proposals on climate change or renewable energy



CLIMATE DISCLOSURES IN THE U.S.

- "Materiality" is a Core Issue in Scenario Analysis
  - SEC definition of "material": "a substantial likelihood that a reasonable investor would consider it important"
  - SEC's 2010 Climate Change Guidance 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 ASSESSMENTS AND FUTURE PROJECTIONS

- **Materiality Analysis**: In determining materiality as it relates to future projections:
  - consider financial, operational and other information known to the company; and
  - assess whether future projections, along with other identified known trends and uncertainties, will have, or are reasonably likely to have, a material impact on the company's liquidity, capital resources or results of operations.
- **No Prescribed Time Horizon**: The SEC has stated that there is no prescribed time horizon for determining by when a trend or uncertainty must occur. After considering particular facts and circumstances, and the specific trend or uncertainty in question, the company should apply the general standard for determining the materiality of contingent or speculative information or events, which requires that the probability of the event occurring be weighed against its anticipated magnitude.
- **Subsequent Events**: The impact of subsequent events such as earnings releases, etc., may make the projected information less meaningful to a prospective investor. Projected information may be modified or superseded by subsequent statements or events, potentially shifting the materiality analysis.

EU NON-FINANCIAL REPORTING DIRECTIVE

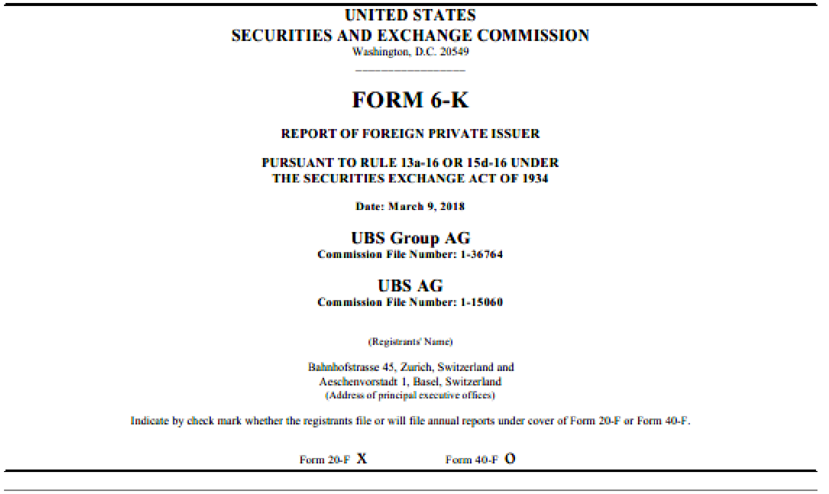
- EU Non-Financial Reporting Directive (Directive 2014/95/EU) has been implemented by all 28 Member States (some Member States have more stringent requirements); required disclosures include:
  - Environmental matters (pollution prevention and control, energy use, greenhouse gas emissions, use of natural resources, waste management, environmental impacts from transportation or disposal, green products and services)
  - Social responsibility and treatment of employees (covers issues ranging from diversity to worker health and safety)
  - Respect for human rights (covers human rights issues in supply chain as well as other topics)
  - Anti-corruption and bribery issues (covers management of anti-corruption and bribery matters as well as occurrences)
  - Diversity on board of directors (age, gender, educational and professional background)
- Companies can report using GRI, the UN Global Compact, OECD Guidelines, and ISO 26000, among other frameworks
- On March 8, 2018, the European Commission published an action plan to overhaul disclosure policy by 2020 to achieve the EU's 2030 climate and energy targets

CLIMATE DISCLOSURES IN CANADA, THE UK, AND FRANCE

- **Canada**
  - Does not have mandatory disclosure requirements, and uses materiality threshold for environmental disclosures (similar to the U.S.)
  - In 2017, the annual, non-financial GHG-reporting threshold for facilities was lowered to 10 kilotons CO_2e per year (previously 50 kilotons)
  - The Canadian Securities Administrators is reviewing climate disclosure policy
- **UK**
  - For quoted companies, a mandatory disclosure requirement (including annual GHG-emissions) and duty to consider environment during decision-making
  - Encourages and provides technical guidance on disclosing climate-related metrics
  - Endorsed the TCFD; a “green task force” is developing policy recommendations
- **France**
  - Applies mandatory disclosure requirements to companies and institutional investors
  - Requires adoption and disclosure of climate risk-management strategy
  - Endorsed the TCFD and is collaborating with Sweden to develop “green financing tools” to support low-carbon transition

CLIMATE DISCLOSURES IN THE U.S.

- A critical mass of companies effecting new disclosure could change the calculus
- Investor pressures through shareholder proposals/private engagement for enhanced disclosure
- Change in disclosures by EU-listed companies with filing obligations in the U.S.?



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

Date: March 9, 2018

UBS Group AG
Commission File Number: 1-36764

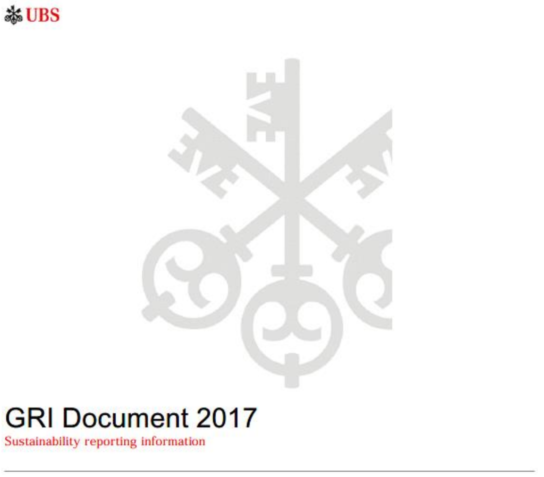
UBS AG
Commission File Number: 1-15060

(Registrants' Name)

Bahnhofstrasse 45, Zurich, Switzerland and
Aeschenvorstadt 1, Basel, Switzerland
(Address of principal executive offices)

Indicate by check mark whether the registrants file or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F O



THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

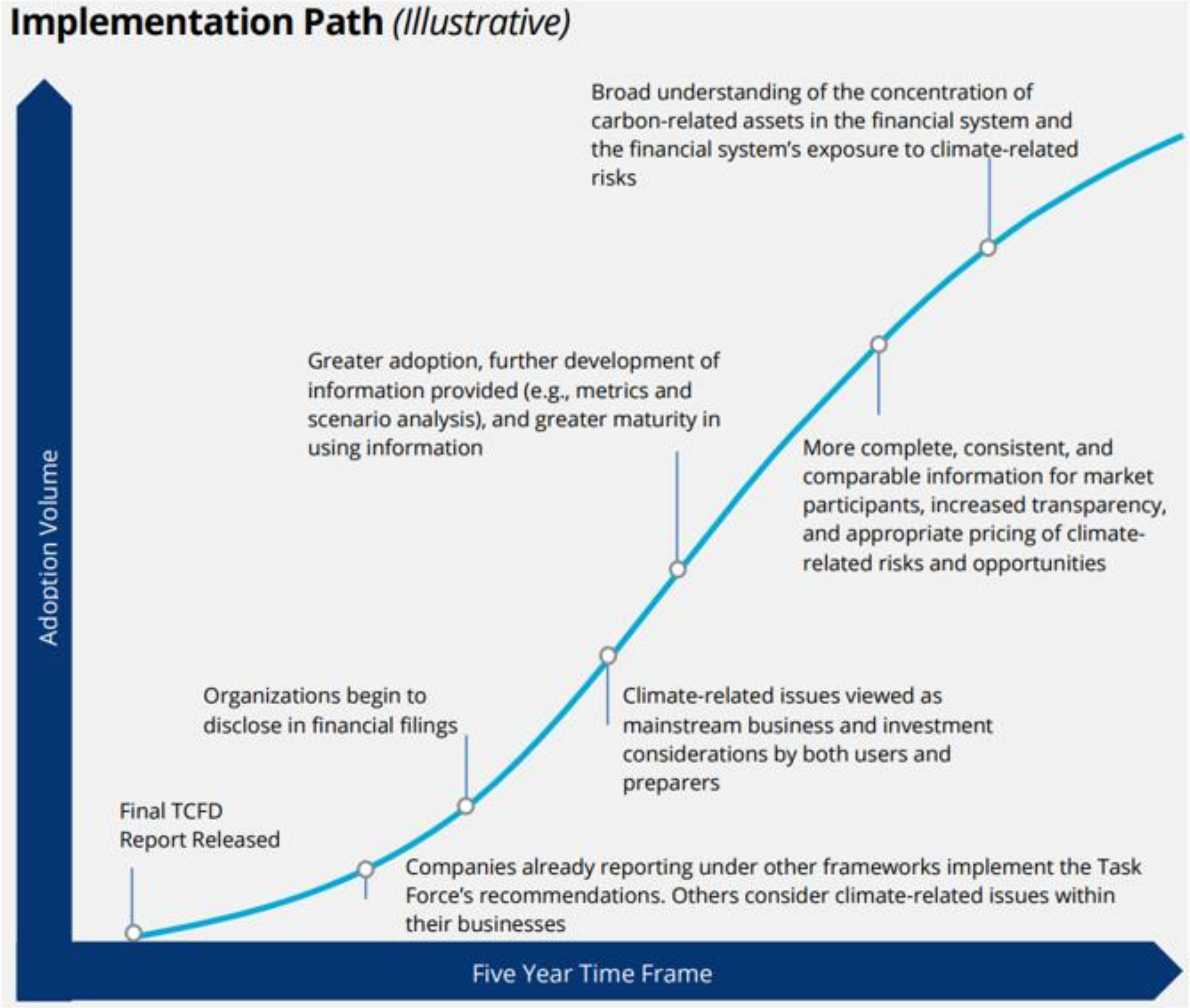
Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

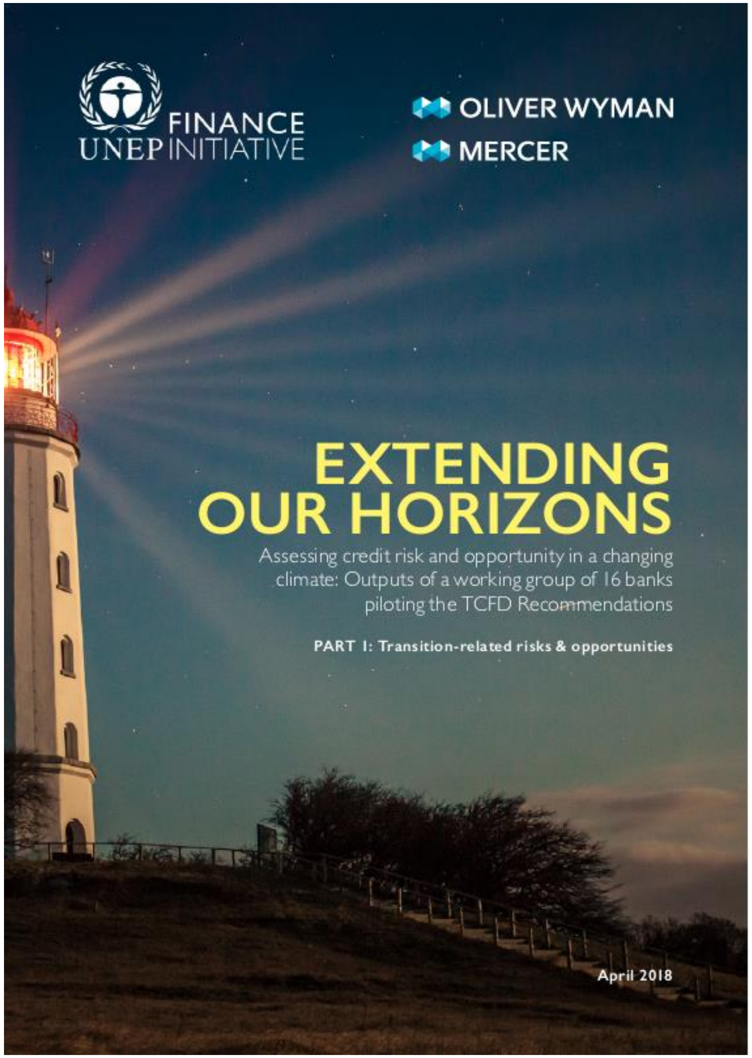
Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

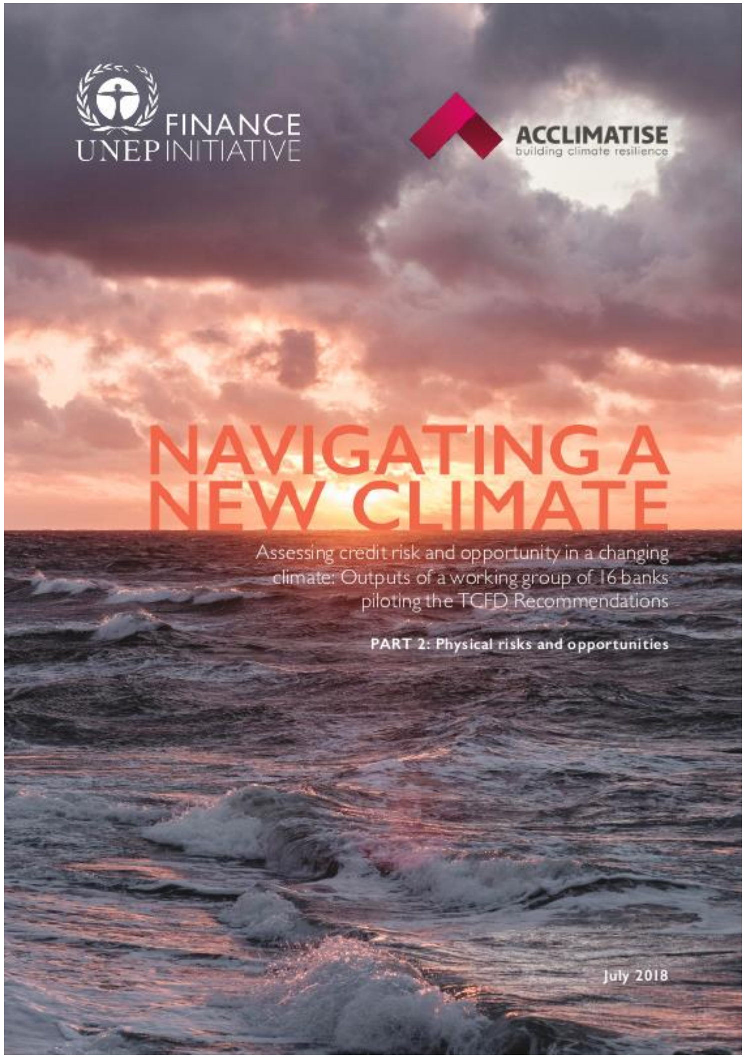
- Under the TCFD's recommendations, information on "Strategy" and "Metrics and Targets" is subject to a materiality assessment; information on "Governance" and "Risk Management," however, is not
- Scenario analysis would be under "Strategy" and subject to materiality assessment

TASK FORCE EXPECTATIONS



UNEP-FI REPORTS



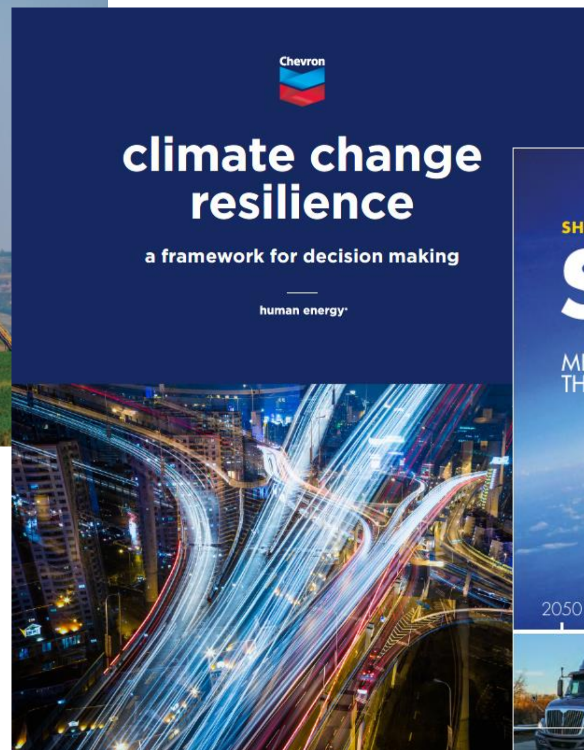


KEY LEGAL QUESTION IN ASSESSING AND DISCLOSING CLIMATE RISK

- Given evolving investor expectations, how do you balance voluntary reporting against materiality considerations?
- TCFD framework- key questions
  - At what point do the results of a scenario analysis become material?
  - How can a company talk about opportunities?
  - What about physical climate risk?
- How do legal responses to climate impacts affect creditworthiness?

V&E

CLIMATE SCENARIO REPORTS



NYAG LAWSUIT AGAINST EXXON FOR INADEQUATE CLIMATE DISCLSOURES

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

PEOPLE OF THE STATE OF NEW YORK, by BARBARA D. UNDERWOOD, Attorney General of the State of New York, Plaintiff, - against - EXXON MOBIL CORPORATION, Defendant.	Index No. **COMPLAINT**

Plaintiff, the People of the State of New York (the "State"), by Attorney General Barbara D. Underwood, alleges upon information and belief the following against Defendant Exxon Mobil Corporation ("Exxon").

NATURE OF THE ACTION

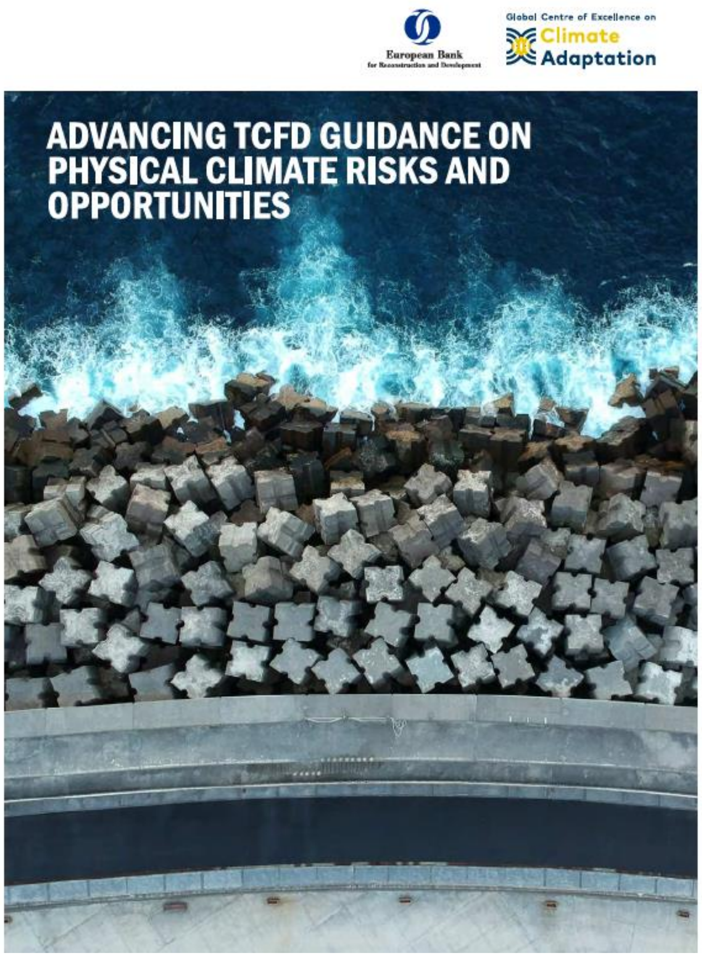
1. This case seeks redress for a longstanding fraudulent scheme by Exxon, one of the world's largest oil and gas companies, to deceive investors and the investment community, including equity research analysts and underwriters of debt securities (together, "investors"), concerning the company's management of the risks posed to its business by climate change regulation. Exxon provided false and misleading assurances that it is effectively managing the economic risks posed to its business by the increasingly stringent policies and regulations that it expects governments to adopt to address climate change. Instead of managing those risks in the manner it represented to investors, Exxon employed internal practices that were inconsistent with its representations, were undisclosed to investors, and exposed the company to greater risk from climate change regulation than investors were led to believe.

2. For years, and continuing through the present, Exxon has claimed that, although it expects governments to impose increasingly stringent climate change regulations, its oil and gas reserves and other long-term assets face little if any risk of becoming stranded (*i.e.*, too costly to develop or operate) due to those regulations, and reassured investors that it would be able to profitably exploit those assets well into the future. In particular, to simulate the impact of future climate change regulations, Exxon has claimed that, since 2007, it has rigorously and consistently applied an escalating proxy cost of carbon dioxide (CO_2) and other greenhouse gases (together, "GHGs") to its business, including in its investment decisions, business planning, company oil and gas reserves and resource base assessments, evaluations of whether

1

THE CHALLENGE OF INCORPORATING PHYSICAL RISKS

- Risks to owned facilities
- Supply chain risks
- Risks to portfolio assets



www.physicalclimaterisk.com

CLIMATE-RELATED LITIGATION AND CREDIT RISK
WILDFIRES IN CALIFORNIA

- PG&E currently facing lawsuits for property damage resulting from 2017 wildfires in Northern California
  - Loss of over $13 billion in market cap
  - Suspension of dividends

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Source: https://s.hdnux.com/photos/66/52/67/14331372/11/920x920.jpg

BROAD LEGAL CONSIDERATIONS WITH CLIMATE DISCLOSURES

- Derivative actions—companies may face derivative lawsuits for mismanaging climate risks (e.g., PG&E)
- Shareholder push for increased climate disclosure and scenario analysis
  - Need to balance increase in voluntary disclosure against assessment of materiality
  - Data quality and ability to make meaningful judgements about the impacts of climate
  - Risk of shareholder proposal driving strategy (in place of management decision making)
- How do lawsuits against portfolio companies impact value?