CDSB
Climate Disclosure Standards Board

CDSB announces update to the Climate Change Reporting Framework 1.0

Update 1 effective from June 2012,
affecting paragraphs 4.23 – 4.25, Organizational Boundary Setting

Introduction

Following discussions with members of the World Resources Institute, World Business Council for Sustainable Development and the accountancy profession, CDSB is updating paragraphs 4.23 – 4.25 of its Climate Change Reporting Framework dealing with organizational boundary setting for GHG emissions reporting. This announcement describes the nature of and rationale for the update.

Background

Different interpretations[1] exist on whether and to what extent reporting should cover climate change-related information for parent companies, subsidiaries, joint ventures, associates, raw materials, suppliers and upstream and downstream activities. This in turn diminishes comparability of information.

Reflecting the possible coalescence of financial and non-financial information, one possibility for limiting and defining the approach that corporate groups use to set organizational boundaries is to align with financial reporting consolidation practices. However, the extent to which a reporting organization might have influence over greenhouse gas emissions, climate risks and impacts spreads well beyond the financial reporting boundary. Therefore, there is also widespread agreement that extended boundaries should be considered when assessing risks to the reporting organization from outside the financial reporting boundary.

The technical challenge for CDSB and others is how to set organizational boundaries that:

a) recognize the variety of corporate structures;
b) achieve a degree of conformity in organizational boundary setting in order to support benchmarking;
c) take account of upstream and downstream climate impacts;
d) take account of information collection and exchange challenges;
e) align with existing approaches, particularly as reflected in the Greenhouse Gas Protocol.

CCRF current position

CDSB's objective is to develop an approach to organizational boundary setting that supports the Board's **mission** through the right balance of **technical** precision and **practicability**, together with **market acceptance** over time.

a) **Technically** CDSB's position is that the approach should align organizational boundary setting for climate change-related disclosure with financial reporting boundaries/consolidation rules.

[1] For example, ERM's report for the European Commission notes that "..in particular, current guidance on setting of reporting boundaries….. is typically open to a wide degree of interpretation by the user..".

b) Secondly, the approach should be **practical** to put into operation. The best technical solution might, in the first instance, present practical difficulties for reporting organizations and CDSB aims to manage this over time through ongoing consultation and evolution of the CCRF.

c) Thirdly, the approach should support CDSB's **mission.** By encouraging disclosure of climate change related information through mainstream reporting channels according to relevant principles of financial reporting (ie: integrated reporting), CDSB's anticipates that capital markets will use information to allocate capital in support of the transition to the low carbon economy. CDSB's most recent research[2] shows that financial institutions are not currently using climate change-related information for this purpose, in part because comparisons cannot be made between companies that prepare information by reference to different organizational boundaries.

d) Finally, CDSB's approach must gain **market acceptance**,

The approach to organizational boundary setting in paragraphs 4.23 – 2.25 was designed to satisfy the above objectives. However, whilst the WRI, WBCSD and TCR fully support CDSB's aim to develop a single approach to organizational boundary setting, some of their members have expressed concern that the approach suggested by CDSB does not align fully to any one of the three approaches set out in the GHG Protocol. This in turn produces confusion, limits market acceptance and could undermine the work already done to encourage compliance with the GHG Protocol.

Rationale for and nature of the update

In recognition of the long-standing practices that have been established through widespread adoption of the GHG Protocol, CDSB concludes that the CCRF should align with practices established under the GHG Protocol. Through discussions with WBCSD, WRI, TCR and the accountancy profession, CDSB has agreed that its organizational boundary approach should align to the GHG Protocol's financial control approach, notwithstanding that it differs in its treatment of associates from the way in which entities are consolidated for financial reporting.

Effect of the update

The update mainly affects groups with investments in associates. The effect of the update is to delete "line 3" from the Table entitled "Part 1 GHG emissions (Scope 1 and 2) in paragraph 4.24 of the CCRF. This means that GHG emissions from associates should not be included in the Scope 1 or 2 results for entities within the financial control organizational boundary. The rationale is that, whereas subsidiaries fall under the control of parent companies for financial reporting purposes and joint ventures fall under the joint control of the group and its fellow venturers, associates are not under the control of the parent and therefore fall outside the definition of financial control in the Greenhouse Gas Protocol.

Prior to this update, Edition 1.0 of the CCRF included GHG emissions from associates within Scope 1 and 2 results on the basis that financial results from associates are included as comprehensive income in consolidated financial statements along with financial results from joint ventures. In other words, on the basis that financial reporting requires consolidated financial statements to include in comprehensive income results from joint ventures AND associates, CDSB adopted the same approach.

Whilst both are included within the financial control organizational boundary, Scope 1 and 2 results from subsidiaries and joint ventures should be recorded separately as shown in lines 1 and 2 of the table in paragraph 4.24 of the CCRF.

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[2] Financial Institutions: Taking Greenhouse Gases into Account – A report produced by CDSB for DEFRA. Authored by Matthew Haigh and Matthew Shapiro.

To the extent that GHG emissions from associates satisfy any of the conditions in paragraphs 4.26 (a) – (c), they should be reported under "Part 2" for the purposes of the CCRF [and under Scope 3 for the purposes of the GHG Protocol]

Implications for groups of companies that have prepared disclosures according to paragraphs 4.23 – 4.25 of the CCRF

Groups that have prepared disclosures in conformance with paragraphs 4.23 – 4.25 of the CCRF should not take any action to amend any disclosures they have already made to CDP or through other channels to take account of this update. CDP has confirmed that disclosures made in conformance with the CCRF will not be penalized in any way for scoring purposes.

Further work

Whilst the updated position successfully aligns with the GHG Protocol, CDSB is working with its members and partners to consider how financial and carbon reporting can be more closely aligned in accordance with the objectives set out above. In particular, CDSB has been asked to review the implications for carbon reporting of the International Accounting Standards Boards re-exposure of proposals for a common leasing standard (see www.ifrs.org), and to consider the implications for climate reporting of IFRSs 10, 11 and 12. Further updates will be issued on CDSB's website in due course.