CARBON DISCLOSURE PROJECT

CDSB

Climate Disclosure Standards Board

A special project of CDP

CDP-CDSB Response to BIS

Publication of Draft Regulations for Narrative Reporting

November 2012

An introduction to CDP

"The first step towards managing carbon emissions is to measure them because in business what gets measured gets managed. The Carbon Disclosure Project has played a crucial role in encouraging companies to take the first steps in that measurement and management path."
Lord Adair Turner, Chairman, UK Financial Services Authority

"Climate Change is one of the greatest challenges of the 21st century… It is extremely important for investors to take account of climate change in their decision making. I wish the Carbon Disclosure Project success with its further efforts both in Germany and worldwide."
Dr Angela Merkel, German Chancellor

"The Carbon Disclosure Project is vital and we've got to get everybody to participate in it. Climate change is a problem of prosperity and of unexamined processes and making investment decisions which may have made sense yesterday, but don't make sense for tomorrow."
Former US President Bill Clinton

Carbon Disclosure Project (CDP)

The Carbon Disclosure Project (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 harnesses the power of market forces to collect information from companies on their greenhouse gas emissions and assessment of climate change and water risk and opportunity. CDP now holds the largest collection globally of primary climate change and water data and puts these insights at the heart of strategic business, investment and policy decisions. Please visit www.cdproject.net to find out more.

Investor CDP is the largest collaboration of investors in the world and generates essential climate change information that helps drive capital flows to a low carbon economy. In 2012, 655 institutional investors with assets of US$78 trillion were signatories to Investor CDP, including Allianz, Axa, Goldman Sachs and HSBC. Over 4,000 organisations in some 60 countries around the world disclose their greenhouse gas emissions and climate change strategies through CDP.

CDP Supply Chain helps global corporations to understand the impacts of climate change across the supply chain, harnessing their collective purchasing power to encourage suppliers to disclose climate change information, targets and progress. Over 50 corporations including Ford and Unilever are members of CDP Supply Chain.

CDP Water Disclosure provides critical water-related data from the world's largest corporations to inform the global market place on investment risk and commercial opportunity. In 2012, over 470 institutional investors representing US$50 trillion in assets were signatories to CDP Water Disclosure and 345 companies responded to the request.

CDP Cities provides a global platform that allows city governments to publicly disclose climate and water information. CDP Cities allows city governments to demonstrate their commitment to transparency and facilitate the sharing of emissions data. 73 cities and local governments from around the world disclosed to CDP in 2012.

Forest Footprint Disclosure Project (FFD), a project pioneered by the Global Canopy Programme (GCP) with the support of the UK Government, was launched in 2009 to assist companies and their investors worldwide in understanding and addressing their exposure to 'forest risk commodities'. Today, investors with over USD $7 trillion in assets under management back FFD. This year CDP and GCP announced an alliance that will see FFD merge with CDP over the next two years. This strategic merger by CDP and GCP will bring corporate disclosure on the earth's atmosphere, water and forests under one roof, resulting in the world's largest and most comprehensive natural capital disclosure system, and will provide companies and investors with a single, integrated source of information for these interrelated issues. For more information about FFD go to: http://www.forestdisclosure.com

"We need a method and system that works and one that will drive behaviour change from business, which is why this reporting is to be introduced. We believe the Climate Disclosure Standards Board (CDSB) framework which links carbon footprint to strategy risk and performance is the best way to achieve this."
Michael Izza, ICAEW's Chief Executive

Climate Disclosure Standards Board (CDSB)

The Climate Disclosure Standards Board (CDSB) was formed at the 2007 annual meeting of the World Economic Forum (WEF). CDSB is an international organisation committed to the integration of climate change-related information into mainstream corporate reporting. CDSB works with leading professionals in accountancy, business, standard-setting and regulation to develop and advocate a generally-accepted global framework for use by corporations in disclosing climate change-related information in mainstream corporate reporting.

In support of its objectives, CDSB has developed a Climate Change Reporting Framework (found at www.cdsb.net/ccrf) by drawing on the work of its Board members, on international developments in climate change regulation and on the work of the International Accounting Standards Board. Technical Working Group members include representatives of the major accounting firms, as well as national and international accounting bodies.

By utilising these resources, as well as experience of ten years good practice in climate change-related disclosure to CDP by thousands of companies worldwide, CDSB's Framework prescribes reporting requirements that are as consistent as possible with the most common features of voluntary and mandatory climate change disclosure and with the established financial reporting model.

CDSB is a special project of CDP. CDP drives CDSB's work programme and acts as the Secretariat, responsible for advancing the CDSB Framework in association with members of the CDSB Board and Technical Working Group. For more information see www.cdsb.net.

Through its consistency in climate change disclosure project work, www.cdsb.net/consistencyreport , CDSB has tracked the regulatory activity of various jurisdictions regarding climate change-related reporting.

Consultation Response

Introduction

The Carbon Disclosure Project (CDP) and the Climate Disclosure Standards Board (CDSB) welcome BIS's invitation to comment on the draft Strategic Report and Directors' Report Regulations 2013. This response reflects the views of CDP and members of CDSB's Technical Working Group but not necessarily of the organizations represented by those members.

General comments

We support BIS' objectives to provide clarity on narrative disclosure requirements and to streamline existing arrangements. However, we encourage BIS to provide more guidance and explanation about how the proposed regulation relates to and interacts with the many other initiatives and pronouncements that cover similar subject matter. For example, the Kay Review, the Financial Reporting Council's (FRC) work on disclosure frameworks and "cutting clutter", the International Accounting Standards Board's (IASB) practice note on Management Commentary and Integrated Reporting. Whilst they may not use exactly the same language or approach, all of these (and other) initiatives and pronouncements directly or indirectly refer to the need for disclosures that provide readers with a better sense of the strategic direction of the company and how they use economic and other resources to operate their business model to secure a long-term resilient future.

Our sense is that all of this activity, including the draft regulation, is designed to contribute to a regulatory, business and investor framework that supports long-term sustainable and resilient growth. However, there is very little evidence of or explanation about how all of the different activities work <u>together</u> towards what we perceive to be a common goal. Rather than "re-energizing" reporting as BIS intends, we suspect that in the absence of a more consistent, coherent and well-defined approach to providing shareholders with useful information neither reporting companies nor shareholders will further benefit from the proposed regulations.

Paragraph 414C (4)(a) and (b) – Strategy and business model

One of the main differences that the proposed regulations make to the existing provisions of the Companies Act is the requirement for the Strategic Report to provide a description of the company's business model and strategy. Incorporation of these requirements into the Companies Act certainly captures the current zeitgeist as many other regimes and organizations, including the Integrated Reporting Council, are also emphasizing the importance of companies reporting their strategy and business model to investors and other stakeholders. Although many regimes are coalescing around this approach, we are not aware of any agreements around commonly accepted definitions of the phrases "business model" and "strategy". In the absence of guidance about BIS' exact expectations, we anticipate that companies will struggle to know whether and/or when they have complied with the requirements to describe their strategy and business model.

The Organisation for Economic Co-operation and Development (OECD) has sought to define "business" model in their work on "the role of business models in green transformation" and the IIRC is also in the course of developing a definition of the phrase. We note that BIS refers to definitions provided in the FRC's Corporate Governance Code, which in turn seems to refer to the original Operating and Financial Review (OFR) material. Either way, we are not sure that the concept of "business model" or "strategy" can be understood or described only through the lens of corporate governance. We caution against using them unless BIS is able to define it clearly for the purpose of the new regulation.

Paragraph 414C (4)(d)(i) and (7)(b) – Environmental matters and associated KPIs

We note the continuing requirement for quoted companies to report on environmental matters (mirroring existing requirements under section 417(5)(b)(i) of the Companies Act). Given the recent release of the draft Greenhouse Gas Emissions Directors' Report Regulations, we suggest that guidance clarifies whether compliance with those regulations will be treated as satisfying a quoted company's requirement to report on greenhouse gas emissions as a particular "environmental matter". We wonder why the Strategic Report should require disclosures on environmental matters but GHG emissions information is to be located in the Directors' Report. We would suggest that as an important piece of environmental information, GHG emissions should arguably be in the Strategic Report rather than in the Directors' Report. Either way, we have concerns about the requirement to report on "environmental matters" in a Strategic Report and the requirement to report on GHG emissions in the Directors' Report.

Guidance on how to comply with reporting requirements should help preparers to develop a process that results in balanced, concise, comprehensive, transparent and meaningful information specific to the company. We welcome plans to provide guidance on reporting and encourage BIS to pay more attention to the "how to" aspects of reporting.

Conclusions

Whilst we appreciate BIS' efforts to respond faithfully to the consultation on the future of narrative reporting, we are not confident that the relatively small content changes and re-positioning of existing information requirements will achieve the "re-energizing" effect that BIS is hoping for.

We recommend that the changes are delayed pending a more holistic review of the emerging trends in corporate governance, corporate social responsibility, environmental, integrated and financial reporting. Given that UK quoted companies are required to consolidate information for all group entities, we also encourage BIS to include in such a review emerging reporting practices in other jurisdictions that might have a bearing on how directors prepare consolidated disclosures.

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