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21st October 2009

Re: Exposure Draft of the Climate Disclosure Standards Board Reporting Framework

Dear Members of the Climate Disclosures Standard Board ("CDSB")

Deloitte Touche Tohmatsu is pleased to respond to CDSB's Reporting Framework Exposure Draft (referred to herein as the "consultation paper" or "ED").

We welcome this opportunity to provide our views. Our detailed responses to each individual question are provided in an Appendix to this letter. The paragraphs below provide an executive summary of our views.

Firstly, we support this initiative to provide additional guidance for reporters and to define a strong framework for climate disclosures. If adopted, we believe this would assist in standardising and increasing consistency and comparability of information in this area. We believe the general approach taken by the CDSB in aligning the measurement of an entity's carbon footprint to financial accounting- and reporting-type concepts to be the right one. We support the ED as an advance in the move towards and valuable contribution to the debate regarding the development of a consistent basis for reporting in this very important area.

Secondly, we believe that the value of these disclosures should be evidenced by a cost-benefit analysis, similarly to the cost-benefit analyses that international standard-setters such as the International Accounting Standards Board ("IASB") are required to perform. Such an analysis would identify:

(i) the financial cost of providing the proposed disclosures for, say, Global Fortune 1000 companies;
(ii) the non-financial costs of providing the proposed disclosures for such companies;
(iii) the benefits that would accrue from the provision of this information; and
(iv) how the items in (i-iii) might or should vary company to company depending on the industry, size and other material characteristics of each individual organisation.

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Thirdly, we believe that there needs to be increased dialogue between the investment community and leading corporate entities in the development of climate change-related disclosures and that the CDSB's consultation paper is a step forward. We understand that one of the CDSB's primary objectives is to facilitate dialogue between interested parties, as is reflected by CDSB's own structure with its multiple various shareholder groups. However, we are concerned that about how well the views of the investment community and of leading corporate entities are represented in the CDSB proposed framework. We acknowledge that, in its Basis for Conclusions, the CDSB recognises that the information required by its draft framework should align the needs and interests of both information preparers and data-users. However, additional consultation of both groups, i.e. both potential users and preparers of this information, is required.

As highlighted in our second and third points above, we believe that a clear demand for CDSB's proposed climate disclosures from the investment community, together with acknowledgement from a small critical mass of reporters that it is practical and beneficial to follow the proposed reporting framework, is critical to the successful voluntary adoption of the framework.

Finally, we do not think a decision on whether these disclosures should be mandatory either for a particular class of entity or for all companies, can be taken until the cost-benefit analysis referred to in our second point above is performed.

If you have any questions concerning our comments, please contact Nick Main in London on +44 (0) 20 7303 2486, Mike Barber in London on +44 (0)20 7007 3031 or Eric Hespenheide in Detroit on +1 313-396-3163.

Yours faithfully,

Nick Main
Global Managing Partner
Sustainability and Climate Change

Appendix 1: Detailed responses

1. Do you agree that a single global framework for climate change-related disclosure in mainstream reports is necessary and/or possible, notwithstanding the background of different national developments? If not, please explain why.

Yes. We support any initiative to provide guidance to preparers and users of climate change-related disclosures, with a view to promoting consistency and comparability. We believe that, for the time being, and while such disclosures continue to be voluntary (please see our covering letter and the discussion in the third paragraph below) an entity should have discretion over whether to provide the disclosures in its mainstream annual report or elsewhere, for example within its corporate and social responsibility report. This decision should be based on the entity's own impact and risk analysis of climate challenge on the financial position and performance of its business.

Additionally and as standard practice, companies should state clearly the extent to which this information, wherever it is provided, has been subject to internal or external audit hence the level of assurance it provides over these disclosures.

A cost-benefit analysis may confirm that there is a class of reporting entities for whom reporting climate change-related disclosures using a consistent framework should be mandatory. Such a cost-benefit analysis should consider the size of an entity, the industries and markets in which it operates, management's own assessment of the materiality of climate change-related risks to the organisation, and the nature of its key stakeholder groups. Until such an analysis is performed, we do not think a decision on whether these disclosures should be mandatory either for a particular class of entity or for all companies, can be taken.

Where supported by cost/benefit considerations, we believe that these disclosures should be provided in an entity's mainstream reporting to all its share- and stakeholders. Companies would be expected to include a discussion of the impacts and risks of climate change and future plans in this area in the management commentary section [1]of the annual report with disclosures in the financial statements [2]as necessary to comply with accounting requirements to explain the material impacts of carbon emission reduction and emissions trading schemes on the company's income statement and statement of financial position. We acknowledge that, as a consequence of this, additional consideration must be given to the level of assurance (and potential resulting additional costs) companies should be required to give regarding these disclosures.

In summary, consideration must be given to the level of disclosure to be provided in mainstream reports to ensure that climate disclosure reporting requirements are proportionate to their intended benefits.

2. Do you agree with CDSB's overall approach of aligning its Guiding Principles to existing relevant principles and objectives of financial reporting so as to elicit information of value primarily for investors? If not, please explain why and share with us your ideas for a new/different approach to climate change-related reporting.

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[1] Often referred to as the "front half" of the annual or interim report

[2] Equally, often referred to as the "back half" of the annual or interim report

Yes. However, we believe that the substance of the framework has been lost in the Guiding Principles section. We believe the framework could be made more rigorous and coherent as follows: as most of the fundamental guiding principles are generic in nature, we believe they could be more easily comprehended if a table was created in which the generic guiding principles appeared in one column with the corresponding application to climate disclosure in a second column. Additionally, paragraphs 6.11, 6.13, 6.18, 6.25, 6.27, 6.30, 6.34, and 6.36, as well as similar sentences contained in paragraphs 6.40 and 6.43, might more appropriately be given as footnote references; the current structure and position of this text, along with the interspersed quotes, further hinders the readability of this section.

Key to the development of consistent and converged climate disclosures is the question of the 'organisational boundary' of a reporting entity.

Currently, as the CDSB is aware, under the GHG protocol, where an entity owns less than 100% of the operations in which it has an interest, it has a choice of three approaches: the equity share approach[3], the financial control approach[4] and the operational control approach[5]. To align with international accounting standards, the CDBS has selected the financial control approach to be mandated by those entities applying its draft reporting Framework.

The draft Framework needs to be explicit that its financial control approach includes entities jointly controlled by the reporting entity, since these are not consolidated under IFRSs but equity accounted. We can see that it is the intention of the CSB that the emissions of joint ventures be included within the organisational boundary, based on the investor's equity share, since the 'Typico' example in Appendix 2 includes Typico's equity share of the emissions of its joint ventures.

Selection of this approach may introduce what some might see as an anomaly. Under this approach, the emissions of a 50% or even 25% joint venture (where there are four venturers with equal equity interests) would be included within the organisational boundary whereas those of a 49% associate would not. From the Typico illustrative example we note that fixed asset investments and associates are explicitly excluded from the organisational boundary, but that "where material, emissions from these operations have been included within Scope 3 emissions reporting." The CDSB does not mandate disclosure of Scope 3 emissions. Some may challenge the exclusion of these emissions from Scopes 1 and 2 where they are material and the investor has significant influence over initiatives for their reduction.

3. At the current stage in its development, the CDSB Reporting Framework, including the Reporting Templates, are designed for general use by all companies within the stated scope of applicability. Do you agree that further work is required to develop the Reporting Framework, including the Reporting Templates, to take account of particular sector-specific issues related to climate change? If so, please

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[3] Under the equity share approach, a company accounts for GHG emissions from operations according to its ownership interest in the operation, i.e. by reference to is equity shareholding.

[4] Under the financial control approach, a company has control if it has the ability to direct the financial and operating policies of the operation with a view to gaining economic benefits from its activities.

[5] Under the operational control approach, a company has control over an operation if either the company or one of its subsidiaries has the full authority to introduce and implement its operating policies at the operation.

provide your recommendations, referring to particular sector specific climate change-related initiatives if possible.

Sector-specific guidance may become important, but we imagine that this may develop naturally over time through application of the Framework. As the Framework provides generic principles-based guidance hence should promote consistency, we do not think sector-specific guidance is a priority at this time. Rather we believe that the cost-benefit analysis referred to above, together with any other necessary guidance to assist companies adopting enhanced disclosures in this area for the first time, should take priority.

Characterizing decision-useful information

4. Do you agree with the principles and characteristics of decision-useful information that CDSB recommends for making judgments on the information to be disclosed under CDSB's Reporting Framework? If not, what additional principles or characteristics are required, or which ones suggested in the Framework would you change?

Yes. However, please refer to our recommendation in our response to Question 2 regarding ways of further clarifying the information to be provided and how best it could be presented.

5. Do you agree that the CDSB characteristics of decision-useful information are practical for companies to apply and sufficient to limit the amount of information disclosed to the most relevant content for users? If not, what additional guidance or information do you suggest CDSB include?

We believe that there will be a number of challenges for companies providing the disclosures. The CDSB characteristics will help manage some of those challenges but other assistance or guidance is likely to be required – please also see our comments on questions 1 through 3 above and in our covering letter.

Content

6. Do you agree with the content that CDSB recommends for potential inclusion in disclosures under the CDSB Reporting Framework? If not, what additional areas would you recommend or which types of information in the Reporting Templates would you change?

Yes. We agree with CDSB's recommended content for the purposes of standalone reporting but have concerns that, where followed for mainstream reporting, companies will feel the need to inappropriately overload the disclosures they provide outside of the financial statements in the management commentary section of their annual report with climate disclosures. Exactly the same considerations (for example, materiality) should apply to climate disclosures as currently apply to the information companies provide as part of the management commentary and in the notes and financial statements of their annual or interim report. For this reason we suggest the CDSB develop a table which could set out how the Framework's guiding principles apply to climate disclosures (please see our response to question 2 above). This table could act as a filter to assist companies to assess which disclosures are relevant and material to them. In short, the climate disclosures a company provides could be calibrated against an illustrative applied tabular Framework[6]. Currently, as the content is unfiltered, it is fairly daunting, particularly against a backdrop of initiatives to

[6] The 'Typico' example is too detailed and extensive to fulfil this function.

reduce complexity in financial reporting.[7] Companies should not be dissuaded from providing relevant and reliable disclosures in this area where material to an understanding of their financial position and performance.

7. Does one or more of the jurisdictions in which you operate already have requirements for any of the content in the Reporting Templates to be disclosed according to local rules? If yes, are the requirements consistent with the proposed CDSB Framework including the Reporting Templates? If they are not consistent, what are the major areas of conflict or difference?

Standards are emerging in a number of jurisdictions, as the CDSB is aware. We are separately assisting the CDSB in the collation of knowledge regarding existing and emerging climate-related disclosure requirements and consequently will not respond at length here.

8. CDSB's proposed Reporting Framework requires companies to define and explain the performance measures and indicators they use to track and demonstrate their progress in responding to climate change. CDSB considers performance measures and indicators to be crucial elements of decision-useful information as they aid understanding and comparability over time, provided that consistent metrics are used year on year. Do you foresee particular challenges in setting and explaining performance measures and indicators, and using those metric on a consistent basis over time? If so, please explain those challenges.

We support the approach taken by the CDSB and concur with the asserted importance of measuring performance. Setting and explaining performance measures and indicators, and ensuring consistency of use and application, is likely to offer some challenges as:

- the science of climate change measurement is still evolving;
- our understanding of which KPIs are most relevant may develop; or/and
- public consensus may drive an emphasis on matters not currently foreseen as being material.

Hence we believe that the selection of the most suitable KPIs should be left to the discretion of companies themselves, although bound by considerations of relevance, reliability and consistency as required by the Draft Framework's guiding principles. By way of example, current draft reporting

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[7] To name a few initiatives in this area:

- The Securities Exchange Commission ("SEC") in the United States has an established Advisory Committee on Improvements to Financial Reporting which has examined the U.S. financial reporting system with the goals of reducing unnecessary complexity and making information more useful and understandable for investors. We note that their report states that: "to decrease complexity and increase comparability, we are generally advocating a move away from industry-specific guidance in authoritative literature – unless justified by strong conceptual arguments."
- In the UK, in June 2009, the Financial Reporting Council ("FRC"), the UK's independent regulator responsible for promoting confidence in corporate reporting and governance, published a discussion paper 'Louder than Words' arising from its project on reducing complexity in corporate reporting.

template four requires GHG intensity by reference to the company's revenue to be disclosed at a minimum. We do not think KPIs for GHG intensity should be restricted to intensity by reference to revenue. Companies may believe and be able to evidence that GHG intensity by reference to total assets or a non-financial output may be a more meaningful and indicative measure. In short, 'standard' KPIs and industry practice should be permitted to develop over time based on the views of companies and/or their stakeholders as to the most useful measure, hence arguably driven by stakeholder demand as appropriate.

Practicalities

9. How do you anticipate information for compliance with the CDSB Reporting Framework will be collected in your organization? If possible, please state whether in-house or proprietary software is likely to be used, which departments would be involved in the collection and review of information, and how long the annual information collection process is likely to take.

Nil response.

10. What practical issues do you envisage when disclosing under the CDSB Reporting Framework? For example, constraints on the length of the mainstream report or particular requirements applicable in the jurisdiction in which you operate. What could CDSB do to limit any practical difficulties associated with reporting under the CDSB Reporting Framework?

We anticipate there being a number of practical issues, including:

- increasing the complexity that reporting organisations need to deal with internally regarding an already challenging financial year-end closing and reporting process;
- adding further volume to already lengthy mainstream annual reports;
- the need to ensure that reporters balance the needs of stakeholders through transparent provision of information, while protecting the interests of their organisations regarding confidentiality; and
- explaining the information to stakeholders and analysts, many of whom may not be "climate-change literate" to ensure they can reasonably evaluate its meaning and importance.

The table setting out how the Framework's guiding principles apply to climate disclosures which we suggest in our response to question 6 above may serve as a practical tool of use to companies in communicating to their stakeholders and analysts alike a snapshot of the risks and impacts of climate change on their financial position and performance.

11. Is there anything else of relevance you would like to raise?

We are concerned that the reference to ISA 720 in paragraph 8.2 may be misinterpreted. While auditors are required to read the other information in documents containing the audited financial statements, the auditor's objective is to identify information contained therein that may be inconsistent with or contradict information in the financial statements. When such information contains information of a non-financial nature that does not have any direct impact on the company's financial statements, it is less likely that the auditor would have the requisite knowledge to identify material misstatements of fact in such disclosures. For example, an auditor might audit the electricity expense appearing in the financial statements by comparison to the dollar amount on invoices from the utility company but not otherwise consider the actual quantification of usage appearing on such bills. As a result, the auditor would have little relevant information arising from

the audit to consider regarding quantities when reading climate disclosures of GHG emissions from electricity usage. Accordingly, readers of the climate disclosures should not be taking assurance from the fact that the auditors read such information.

We had the following editorial comments or recommendations to improve the readability or accessibility of the Framework:

- Paragraph 3.1 could be greatly simplified by merely stating that the Framework applies to any entity that is required or elects to prepare financial statements under International Financial Reporting Standards (IFRS), generally accepted accounting principles of a particular country or national IFRS equivalents. While it is most likely that companies that include climate disclosures will have their financial statements audited, an audit should not be a precondition for an entity making such disclosures.

- Contextual disclosures should be listed in paragraph 7.1 rather than requiring a scan of the headings of the remainder of section 7 to determine what they are.

- Reporting Template 1 states, towards the end of page 27, "In addition, the following information should be considered for disclosure:" However, what follows is a mixture of items and various clarifications of those items—some are merely line items, while others are sentences or paragraphs. The interspersion of quotes also detracts from the readability. We recommend that the disclosure items that should be considered be numbered or lettered, similar to the style in Appendix 1 (which also uses different font sizes to distinguish its content further), in order to facilitate readability.

The asterisked footnote to cost in paragraph 6.10 seems contradictory to the fundamental premise of disclosing information used internally for decision-making in paragraphs 6.3 through 6.5; that is, if it is being used, it is available and, if it isn't being used, then it would appear that the cost of collating it solely for reporting purposes is inappropriate unless the benefits outweigh the costs.

Finally, we do not think the illustrative 'Typico' example in Appendix 2 of the document should be included in a final version of the Reporting Framework. It is useful by way of illustration at the consultation stage, but we think it is too specific and may detract from the essence of the Draft Framework which is that companies should apply the fundamental guiding principles, including the concept of materiality and cost versus benefit (please see our earlier comments), to determine how and the extent to which they are required to report the impacts and risks of climate-change on their businesses and of their businesses on carbon-reducing initiatives. We consider it inappropriate to use a branded product in a standard.