WRI comments

Introductory questions

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. The harmonization of the rules for a principles-based approach to the preparation of financial statements under IFRS has shown that it is possible. For the users of climate disclosure, it is a necessity. Investors need to be able to make comparisons within sectors that stretch across various jurisdictions.

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.*

Yes. It is natural that information that should be reported within financial statements should be prepared according to the same or similar principles. The templates are useful in helping guide companies in what to report.

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

It is certainly preferable to provide sector specific guidance, in addition to general guidance that applies to all companies. The GHG Protocol has done work with specific sectors, such as the cement sector in China, and is currently developing guidance for the financial sector.

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?*

The principles are easy to understand.

Characteristics

Strategic focus (sections 6.3-6.5). This section could be clearer. "Strategy" is a vague term, but seems to be referring to the impact on cost and revenue drivers. To be clearer this section could refer to financial performance over certain timeframes (short, medium and long term) and also to strategic positioning.

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?*

The difficulty in the framework in general is that it will be challenging for companies to apply. Companies will likely find the most value in the templates. The principles and characteristics are explained well, and are essential to set the stage for the templates. The minimum requirements as described on page 25 (7.3) of the “Basis for Conclusions” is useful. The recommended minimum should be clear to companies. Otherwise, companies will interpret the guidelines as it suits them and it will be difficult to compare across companies.

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?*

The templates are very useful.

Template 1
The company could be required to list the most important cost and revenue drivers, and explain briefly how climate change will present risks and opportunities for each.

Template 3
Ideally an analysis of the physical risks should also cover the context (as template 2 does for regulation). E.g. Companies could be asked to name, or even plot on a map, the locations of their plants and suppliers (and main end markets). The map could be overlaid with GIS data, such as a climate risk index (though a company is very unlikely to do this at present, this would be hugely useful for investors to understand the true risks a company is facing. In our own research, we use these types of maps and are seeing a great demand for this from investors).

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?*

N/A

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.*

Certainly some of the key metrics for reporting on climate change are very clear and widely accepted (i.e. those described on page 25 as the recommended minimum). We don’t foresee those changing or becoming irrelevant. Fewer performance measures are generally preferred, so the ideal recommendation could be these general, widely accepted, metrics supplemented by one or two sector specific metrics.

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.*

N/A as WRI is a non-profit. However, WRI does track and report its emissions. Given it is a relatively small organization, the process is pretty straightforward and the CDSB is unlikely to change or complicate the existing procedure.

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?*

N/A for WRI, however, we can see that the amount of information that could be disclosed (based on the templates) could easily overwhelm a standard MD&A section. We would suggest guiding companies to disclose high level strategic information and several important performance measures in the MD&A, but the rest of the information could go into a separate section.

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

<u>Framework</u>
p. 23 it says asses instead of assess

p. 25 - section 7.2

WRI recommends that further research be conducted to survey stakeholders on whether the financial control approach or the equity share approach results in the most relevant and meaningful GHG inventory for purposes of disclosing and assessing climate related risk.

Both the financial control and equity share approaches are derived from financial accounting practices. In financial accounting, the financial control approach is used to define which entities are considered group companies/subsidiaries that are fully consolidated in a company's financial accounts. The equity share approach is used to determine a company's net assets or total equity (i.e., total assets minus total liabilities) on its group balance sheet.

In GHG accounting, the key difference between the two approaches is that:

1. Using the financial control approach, a parent company a) fully consolidates the emissions from its group companies (i.e., accounts for 100% of emissions from each entity, regardless of ownership share) and b) does not account for any emissions of entities where the parent company has partial ownership, but not financial control.

2. Using the equity share approach, a parent company a) partially consolidates the emissions from its group companies according to its equity share (i.e., 1 to 100%) and b) partially consolidates emissions from entities where the parent company has partial ownership but not financial control, according to its equity share (i.e., 1 to 100%).

If risk is directly correlated with economic interest, then using the financial control approach will lead companies to a) understate risks associated with emissions from minority investments (i.e. partially owned assets where the reporting company has significant influence but not financial control), and b) overstate risks associated with emissions from group companies where the reporting company has financial control but partial ownership.

Basis for Conclusions

p.5 - section 1.5 – Would be useful to show a table of the different schemes and some of the important characteristics of each. (As is being done in the regulatory review matrix work).

p.25 – 7.3 – It's confusing and contradictory to say there is no consensus on what is important to report. Then the paper goes on to make recommendations – the minimum of what is recommended to report (and why) should be very clear.

p.27 - 8.3 – More details on the status/plan for dialogue with regulators – this is so important!

p.27 – 8.4 – Indeed, people are looking at xBML (Extended Business Modeling Language) so perhaps this in particular should be mentioned. Some analysis about the implications for the recommendations of reporting becoming more interactive would be useful.

p.28 – 8.6 – We would suggest that investors can (and should) perform their own analysis with the right information. It's not so much analysis that is missing then but context - i.e. location related risks, regulatory framework, etc. – how much of this is up to company to provide?

Format (both documents)

The format of using numbered points works well for soliciting feedback, but not sure it would work as well for users. There should be a relatively short summary document for corporate users that very succinctly lays out the main points and provides them with clear templates.