



Corporate climate change reporting: **Japan Focus**



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Foreword

Rick Samans, CDSB Chairman

Today's world is one of uncertainty, presenting society and the planet with a wide range of seemingly insurmountable problems. As solutions elude governments, private sector organizations like the Climate Disclosure Standards Board, are working globally to offer tools and strategies that will help to lay the foundations for a sustainable world and to build trust in information and decisions.

The scale of particular challenges presented by climate change is too great to be addressed by any single country or organization. The route to solutions is multi-disciplinary and multi-jurisdictional and must be born out of collaboration and mutual exchange of experiences. CDSB was therefore delighted for the opportunity offered by the UK Foreign and Commonwealth Office to work with Japanese government officials, corporations and investors to share experiences about the role and development of climate change-related disclosure; the main focus of CDSB's work.

The multi-faceted nature of climate change and its social, ecological, ethical and economic consequences demand complex policy decisions, private sector investment and active business strategies¹ to adapt to changing environmental and market conditions. All over the world, policy makers and others are responding to these challenges by introducing a range of measures and initiatives on greenhouse gas measurement and reduction, carbon trading, carbon taxation, risk management, governance, biodiversity protection, energy security and so on.

To the extent that they apply to business organizations, the majority of these measures, whether designed to advance scientific, political, market-based, financial, social or environmental solutions to climate change, require some form of corporate reporting activity. Japanese Government agencies, business organizations and investor groups have introduced a range of measures that require or encourage organizations to report on their climate change-related risks, opportunities, strategies and performance as well as their greenhouse gas emissions. CDSB aims to support corporate reporting in mainstream disclosures by relying on and adopting relevant principles from reporting practices that are already in place and also from established financial and governance reporting practices.

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Rick Samans, CDSB Chairman

What lies at the heart of all requests for information about climate change is the desire to understand how an organization's activities and strategies affect (positively or negatively) or are impacted by climate change such that investors, consumers, the environment, the planet and the next generation may be positively or negatively affected. This underlying shared sense of purpose is a powerful basis for collaboration and was evident at the CDSB Japan Symposium held in Tokyo in February 2012. The opportunity to share and learn from the experiences of Japanese government, industry and investors was both valuable and inspiring. The efforts of Japanese organizations to adopt and demonstrate best practice in climate change-related reporting positions Japan as one of the leaders in Asia and indeed the world and will encourage others to develop and sustain their efforts over the long term. ✕

¹ OECD (2010)

British Embassy Tokyo

FCO Prosperity Funds and the CDSB

The Foreign and Commonwealth Office (FCO) Prosperity Fund was launched in April 2011 to support the UK Government's promotion of sustainable global growth, including in the areas of economic reform, climate change and energy security. In its first year the Prosperity Fund supported 248 projects across a network of 14 countries and regions at a cost of £19.4 million. One of these first year projects was implemented in Japan by the Climate Disclosure Standards Board (CDSB), an international organisation committed to the integration of climate change-related information into mainstream corporate reporting. Project activity encouraged Japanese businesses, investors and policy makers to implement internationally recognised best practice climate change reporting in the form of the CDSB's Climate Change Reporting Framework.

Outcomes from project activity have been excellent; CDSB and the promotion of the Climate Change Reporting Framework in Japan have helped stakeholders disclose information about their climate change-related risks and opportunities, carbon footprints, carbon reduction strategies, and their implications for shareholder value.

The adoption of this type of reporting will ultimately help underpin sustainable financial systems, moving investors beyond carbon foot printing onto linking their data to a strategy which benefits financial performance. Companies in Japan have voluntarily produced integrated reports in various formats, but few jurisdictions mandate consistent internationally recognised climate change reporting, as with the CDSB and its Framework.

This FCO sponsored Prosperity Fund project and the continuation of work by the CDSB will undoubtedly position Japan as one of the leaders in corporate carbon reporting overseas. We hope this activity has set the standard and leads to a wider implementation of climate change reporting standards across the region and globally. x

Andrew Price,
Prosperity Fund Manager, British Embassy Tokyo

ukinjapan.fco.gov.uk

Introduction

Climate change has been identified as an example of market failure. Many believe that failure can be addressed through “green growth” (broadly defined as growth that integrates economic performance and environmental sustainability). Green growth requires the mobilization of financial, technological and human capital at local, national and international levels and at an unprecedented pace and scale.

Decisions to support green growth depend on the supply of robust information. There is a growing trend for information to be sought from organizations about the way in which they respond to the risks and opportunities presented by climate change. This trend reflects the prevailing view that those charged with the management and governance of organizations are stewards, not just of investors’ money, but also of human, natural and social capital, with responsibility to disclose how that stewardship is being exercised through the organization’s strategy and management of risks and opportunities.

Commonly understood and consistent structures are required to support such disclosures, including measurement, reporting, accounting and assurance structures that communicate the information necessary for assessing progress towards green economic growth². CDP and CDSB work with others to create these structures through the development of tools and resources for the integration of climate change-related information into mainstream corporate reports so as to inform mitigation, adaptation and investment decisions and actions. The structures that CDP and CDSB develop are designed to provide the information foundations for stable but ambitious change.

At the same time, governments around the world are putting in place ambitious measures to respond to and mitigate the consequences of climate change, including measures to stabilize atmospheric concentrations of greenhouse gases. The Japanese government is no exception. A comprehensive range of measures has been put in place to encourage and require companies to report on their climate change risks, opportunities, strategies and performance as well as their greenhouse gas emissions. Climate change reporting practices are

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The structures that CDP and CDSB develop are designed to provide the information foundations for stable but ambitious change.

now widespread amongst Japanese companies. CDSB therefore welcomed the opportunity to participate in a UK Foreign and Commonwealth sponsored project to share experiences of corporate reporting with Japanese companies and their stakeholders.

The CDSB pilot project commenced in August 2011. Its purpose was to understand the experiences of Japanese corporations and their stakeholders in relation to climate change-related disclosure, to gain insights into the challenges associated with disclosure and gather feedback on what further work could be done to improve and promote climate change-related disclosure. The project culminated in a symposium on 23rd February 2012 to share learning and outcomes from the project and to support future development of climate change-related reporting including the adoption of CDSB’s Climate Change Reporting Framework.

The project represents the first time that CDSB’s work has been formally shared outside the United Kingdom and CDSB is very appreciative of the high quality discussions and active participation of so many well-informed representatives of Japanese industry and government. This report presents the work of CDP and CDSB and summarizes the main outcomes from the project in Japan. One outcome was the recognition by Japanese industry that financial and non-financial (including climate change-related) reporting are coalescing. This is an important finding for CDSB which seeks to integrate climate change-related disclosures in mainstream financial reports based on some of the rigour and standardization that has been brought to financial accounting. x

² Report from the Global Green Growth Forum (3GF) meeting October 2011, Copenhagen

About the Climate Disclosure Standards Board (CDSB)

CDSB is an international private sector organization³ committed to the integration of climate change-related information into mainstream corporate reporting. CDSB was formed in response to calls for corporate climate change-related information to become more standardized and robust in order to facilitate comparative analyses by investors, managers and the public and drive harmonized reporting worldwide. CDSB advances its mission by acting as a forum for collaboration on how existing reporting standards and practices can be supported and enhanced so as to link financial and climate change-related reporting, respond to regulatory developments and build trust in reporting. CDSB aims to complement climate change policy measures by providing a Framework and other resources for use by companies in preparing climate change-related disclosures in mainstream corporate reports.

CDSB is a special project of the CDP. CDP was a founding board member of CDSB and is responsible for the running and day-to-day operations of the CDSB Secretariat.

CDSB's Mission: to promote and advance climate change-related disclosure in mainstream reports through the development of a global Framework for corporate reporting on climate change.

CDSB's Ambition: to respond to the demand for a global reporting model that ensures fair and transparent markets and inspires confidence in reporting.

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Investors and companies alike are increasingly recognising the importance of understanding the risks and opportunities arising from climate change. Integration of material climate change-related information into mainstream corporate reporting is an important step in helping investors understand the extent to which management of the issue is integrated into a company's strategy and risk management and therefore the extent to which corporate value is being protected and enhanced in this respect.

Hermes EOS therefore welcomes CDSB's Climate Change Reporting Framework as a catalyst for increasing the focus on valuable corporate reporting on climate change. In particular we welcome the framework's flexibility, underpinned by the concepts of materiality and strategic imperative, allowing companies to start their reporting from the principle of communication rather than compliance. We hope this sets a useful direction of travel for the development of future standards and regulation on climate disclosure to facilitate the commensurate quality of dialogue between companies and investors that the issue deserves and requires.”

Freddie Woolfe, Corporate Engagement, Hermes Equity Ownership Services

CDSB's Objectives

- + Promote, advance and standardize climate change-related disclosure in mainstream reports in response to demand and in order to elicit relevant and material information that can be integrated into investor analyses for the enhanced efficiency of capital allocation;
- + Connect financial and non-financial business reporting through a focus on how climate change affects organizations' strategy, condition and value creation potential;
- + Provide conceptual and practical input into deliberations by regulatory agencies contemplating the introduction or development of requirements on corporate climate change-related disclosure;
- + Support assurance of climate change-related information through specification in the Climate Change Reporting Framework of requirements and criteria that may be used for assurance activities.

The outcome CDSB seeks is that, through adoption of its Reporting Framework, more reliable information will reach businesses, investors and regulators in support of the decisions they must make and the actions they must advance in response to climate change.

³ CDSB was formed at the 2007 Annual Meeting of the World Economic Forum in Davos. The Board is a consortium of organizations. The legal structure is provided by the Secretariat, the Carbon Disclosure Project.

Table O1 provides an overview of the current challenges across the reporting landscape, steps CDSB is taking to intervene and the outcomes sought from those interventions. CDSB's activities and tangible outputs are designed to benefit preparers and users of information about climate change, and policy makers that already have or contemplate introduction of climate change-related disclosure requirements. ✕

Table O1 – Today, CDSB's interventions and the intended outcomes

Today	CDSB 's Contribution	Outcomes <small>(assuming adoption of the Climate Change Reporting Framework and deployment of resources)</small>
<ul style="list-style-type: none"> + Robust demand for climate change-related information; + A patchwork of disclosure approaches leading to: <ul style="list-style-type: none"> Confusion for preparers and users of information Variation in the quantity, quality and relevance of disclosures + Financial institutions failing to take account of climate change issues in their analyses = market failure + Fragmented assurance practices = lack of confidence in information + Outdated and incomplete reporting practices that focus on financials + Short-term focus + Disconnection between value creation and climate change. 	<ul style="list-style-type: none"> Standard-ready material <ul style="list-style-type: none"> + The Climate Change Reporting Framework + Sector specific supplements Resources <ul style="list-style-type: none"> + Guidance for applying the Framework + Examples of conformance with the Framework + De-mystification of aspects of greenhouse gas measurement + Technical solutions + A live database of international provisions on climate change disclosure + Interpretive tools for investors + Forum for collaboration Research <ul style="list-style-type: none"> + Comparison of international reporting regimes + Thought leadership + Scrutiny of public disclosures 	<ul style="list-style-type: none"> + Convergence/harmonisation of climate change reporting regimes leading to: <ul style="list-style-type: none"> + Clarity of climate change reporting requirements for preparers and users of information; + Consolidation of existing good practice; + Transparency of disclosures; + Confidence & trust in information and claims to mitigation; + Decision-useful, standardised information with more long term focus; + Support for organizations conducting complementary work; + Support for assurance activities; + Support for policy measures (e.g. standards for carbon foot printing have been identified as necessary for the World Trade Organization's mandate for facilitating international trade. + Effective, stable markets

Why does CDSB focus on climate change-related disclosure in mainstream reporting?

CDSB focuses on climate change-related disclosure in, or linked to, mainstream financial reports because:

- + The objectives and requirements of business reporting are changing - The current business reporting model has been criticized as being “...***too financially orientated, too technically complex and, critically, [ignoring] key elements of business performance including sustainability issues.***”⁴ In their current format, financial statements fail to capture the full range of corporate risks and value creation potential⁵, the balance being derived from intangible factors including environmental, social and governance issues. CDSB’s Reporting Framework seeks to elicit a more complete picture of a company’s condition than has not traditionally been available from financial statements alone.
- + Climate change is increasingly recognized as a critical factor affecting corporate value – the associated risks and opportunities should be as connected to business reporting as any other factor that has the potential to affect a company’s value, strategy or condition. CDSB seeks to make that connection through the use of its Reporting Framework.
- + Legislative developments increasingly require climate change-related disclosure in mainstream reports. However, analyses of corporate responses to existing law reveal a number of issues that affect the quality and quantity of information disclosed in mainstream reports. CDSB’s Reporting Framework seeks to provide guidance on the complex issues that need to be addressed in order to make mainstream disclosures effective.

Who Benefits from CDSB’s work?

Investors will be able to make informed and robust decisions based on clarity, confidence and trust in climate change-related opportunities and risks disclosed by a company understanding the comparative position of companies’ with respect to future challenges.

Analysts will be better equipped to utilize climate change-related information in determining impacts on future cash flow and ultimately company valuations.

Companies can use the Climate Change Reporting Framework to incorporate climate change-related information in mainstream financial reports. The Framework’s content assists companies in achieving a holistic view of how climate change can affect their performance and the necessary actions they could take to address the risks and opportunities.

Governments can benefit from standards ready material and a framework that can be immediately adopted or referenced as a method of compliance in regulation/guidance. By placing climate change-related information at the heart of financial performance, businesses will be able to contribute to national Greenhouse Gas (GHG) reduction targets. Greater stability in financial markets will be attained.

Stock exchanges can consider new voluntary and mandatory listing requirements linked to material climate change risks and opportunities, which in time will further support existing and additional GHG and Environmental Social and Governance (ESG) indices in the marketplace.

Accounting firms will be able to provide more comprehensive assurance of companies reporting on climate change-related performance.

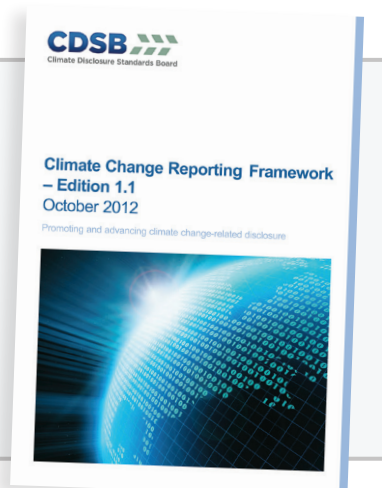
NGOs and the Public will be able to use this additional information to engage with companies in a more meaningful manner, creating competition in the marketplace as companies improve performance and be identified as a leaders’. x

⁴ PricewaterhouseCoopers 2008 Report – Recasting the reporting model – how to simplify & enhance communications.

⁵ From Eurosif submission to the European Sustainability Reporting Association – February 2009.

Climate Change Reporting Framework

CDSB published Edition 1.0 of its Climate Change Reporting Framework⁶ in September 2010 and Edition 1.1 in October 2012. Through a process of continuous improvement and collaboration, CDSB develops the Climate Change Reporting Framework and associated guidance material for use by companies when making disclosures in, or linked to, their mainstream financial reports about the risks and opportunities that climate change presents to their strategy, financial performance and condition. The Framework is “standard ready” for adoption by regulators contemplating the introduction or development of climate change disclosure practices. The Framework is designed to elicit disclosures that link financial and climate change-related disclosures and to produce decision-useful information for investors.



CDSB's approach - Building on and enhancing existing activity and practice

Companies are already making significant progress in climate change related disclosure through CDP and other channels. Standards for preparing certain categories of information, such as GHG emissions, already exist and legislation relevant to climate disclosure is developing fast. However, activity is fragmented and lacks consistency, which dilutes its effect. CDSB develops and consolidates this activity by:

- + **Providing a forum for collaboration** on how existing standards and practices can be supported so as to link financial and climate change-related reporting and respond to regulatory developments;
- + **Consolidation of existing good practice** through CDSB's commitment not to create a new standard but to enhance initiatives that are already widely adopted and working well and to adopt relevant principles and objectives of financial reporting so as to complement the mainstream reporting model with which business is already familiar;
- + **Providing resources** for preparers and users of climate change-related information and for regulators so as to encourage a more globally harmonized approach to climate change-related reporting. Resources include the Climate Change Reporting Framework and CDSB's

Standards Center⁷ workspaces. CDSB draws on a range of influences for the purposes of developing the Climate Change Reporting Framework including the **work of its Board members**. For example, the Framework:

- + Adopts and relies on the **Greenhouse Gas Protocol**⁸ reflecting the coalescence of many emerging global schemes around it as the de-facto standard on GHG emissions monitoring and measurement;
- + Aligns with the content and format of disclosures made through **CDP** as the de-facto template for the disclosure of content that is useful for investors. The Climate Change Reporting Framework complements this by adding a focus on how management should maximize the relevance and usefulness of disclosures.

CDSB also adopts relevant principles **from financial reporting** in so far as they can help business to develop a discipline for environmental reporting using familiar vocabulary and recognizing that financial and environmental reporting will inevitably coalesce. Through its **Consistency Project** work, CDSB tracks developments in emerging legislation designed to minimize GHG emissions and elicit disclosure of risks associated with climate change. →

The Framework can be downloaded in Japanese from:
cdsb.net/FrameworkJP

For more details and the Framework in English, visit:
cdsb.net/Framework

⁶ CDSB's Draft Reporting Framework was released for public consultation in May 2009 at the World Business Summit on Climate Change. Edition 1.0 of CDSB's Climate Change Reporting Framework was published in September 2010.
⁷ <https://standardscenter.com>

⁸ The GHG Protocol was developed by the World Business Council for Sustainable Development and the World Resources Institute – see www.ghgprotocol.org. CDSB refers to the GHG Protocol to include Regional Program.



Figure 1: Sources of influence for CDSB's Climate Change Reporting Framework

Drawing on these and other influences (see Figure 1), CDSB's Framework provides a workable filter for companies and investors to identify the major trends and significant events related to climate change that affect a company's current or future financial condition. In doing so, the Reporting Framework links management of climate change issues with financial performance and is ready for incorporation into the mainstream reporting model with which business is already familiar.

Preparers of climate change-related information for markets describe the current reporting as a labyrinth of rules including legislation, standards, industry and program protocols⁹. These have been developed to assist corporations to report on climate change and share many fundamental characteristics. Using the International Accounting Standards Board's work on the convergence of accounting rules into International Financial Reporting 'Standards (IFRS) as its model, CDSB has enhanced and encouraged coalescence around those shared characteristics by enshrining them in a single global reporting framework. It has been developed using existing standards and practices to ensure a clear harmonized approach to reporting rather than creating a new standard. Using this method of development leads to globally consistent and comparable non-financial information reaching financial markets.

CDSB has recently released edition 1.1 October 2012 of the Climate Change Reporting Framework, which like version 1.0 before it, is not intended to represent the final Framework, rather it is the latest iteration based upon

the best available information as at the date of publication. As part of a process of continuous improvement, CDSB is updating and enhancing the Framework in the light of experience of using the Framework supplied by companies, investors and regulators from countries including Japan, Korea and the UK and in response to developments in climate change disclosure practice. User guidance accompanies the Framework and includes case studies and illustrative examples to assist companies using the Framework for the first time. The Guide to the Framework (hereon in referred to as "The Guide") can be downloaded from cdsb.net/Framework.

The outcome CDSB seeks is that, through adoption of its Climate Change Reporting Framework more reliable information will reach business, investors and regulators in support of the decisions they must make and the actions they must advance in response to climate change. The Climate Change Reporting Framework has been welcomed as "essential" for consensus building and greater comparability, transparency, consistency and simplicity. The Framework is already being referenced by some leading organizations in their mainstream reports as providing the Framework for preparation of their climate change-related disclosures and has been referenced as a method of compliance in the guidance for the UK's new mandatory carbon reporting regulation which will come into effect in October. CDSB is working with other governments and regulators across the world to seek wider adoption. **x**

⁹ A list of protocols can be found in section 4.20 of the Climate Change reporting Framework and include The Climate Registry's General Reporting Protocol and the International Organization for Standardization's ISO 14064-1, which has adopted the GHG Protocol as its basis.



The challenge for Japanese business to demonstrate value and resilience to disruption related to climate change continues to increase. As the pressure to respond intensifies, high levels of uncertainty persist in relation to energy availability in the wake of the Great East Japan Earthquake; political and fiscal instability; global competitiveness; and the need to manage a wider range of interlocked physical risks related to the increased frequency of extreme weather and natural events. It is for these reasons that CDP sent its annual information request again in 2012 on behalf of 655 investors with US\$78 trillion of assets under management, inviting Japanese companies to measure and report what climate change means for their business.

CDP is an independent not-for-profit organization working to drive GHG reduction and sustainable water use by business and cities. CDP has pioneered the disclosure of climate change by organizations and significantly advanced market awareness of the issue. CDP's disclosure system is the mechanism for organizations worldwide to measure and disclose GHG and climate change risk information which is of value to investors, helps companies understand what material to their business is and take strategic action and prepares companies for mandatory reporting. CDP works with the world's largest investors, businesses and governments, and is uniquely positioned to catalyze action towards a more sustainable economy.

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Globally, companies that commit to climate change leadership have generated demonstrably superior returns for stakeholders. Now it is time for Japan's corporate leaders to champion the required organisational transformation to succeed in an uncertain, resource-constrained world”.

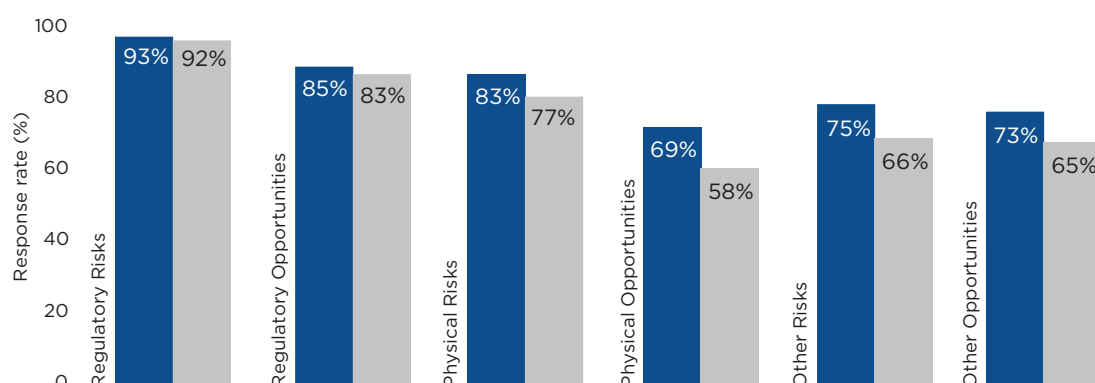
Since 2002, CDP has requested Japanese companies to measure and report on what climate change means for their business opening an office in Tokyo in 2006. CDP Japan upholds a unique position in the Japanese market place as leaders in climate change disclosure, driving emission reductions and risk mitigation activities in a leading global economy.

In 2012, 233 (47%) of the Japanese 500 companies responded to the CDP information request, an increase of 19 companies on 2011 disclosing companies results, in line with increases across the CDP Global 500 and S&P 500 and FTSE 350 disclosure requests. This was complimented by an overall improvement in average disclosure and performance scores awarded by CDP.

Meanwhile, there are an increasing number of companies identifying and reporting risks and opportunities attributable to physical changes and other risks and opportunities from the affects of climate change as outlined in the Graph 1 below. Whilst this is encouraging the level of detail provided on average by Japan 500 responding companies is still well below CDP's expected standard and CDP will continue to work with companies to improve their ability to respond to unexpected risks to maintain functionality and develop deep business resilience. x

Graph 1: Percentage of companies reporting risks and opportunities

2012 2011



Benefits of standardized reporting:

The case for consistency in climate change-related reporting

CDP has been working for over a decade to develop a standardized approach to climate change-related reporting that, in conjunction with CDSB's Framework can be used to report to multiple stakeholders including shareholders and investors. Against the background of that work, other organizations, including regulators have been developing disclosure and reporting regimes designed to correct market and governance failures related to climate change. The number of mandatory and non-mandatory climate change-related reporting schemes and requirements has increased considerably in the last decade.

Climate change reporting and disclosure schemes vary in terms of the objectives that they are designed to support, the types of reporting provisions they include and the actors responsible for their introduction and oversight. The range of organizations involved varies from country to country as does the type of provision introduced. Provisions can take the form of law aimed specifically at climate change mitigation or pollution control, trading schemes, corporate governance codes, financial reporting and management commentary rules, company and environmental laws. Often similar types of information are requested, mainly focussed on climate change-related risk, opportunity, strategy and performance, and GHG emissions. However, even where similar information is reported, different reporting practices can develop because of the different objectives of the requestor, the specification or not of rules for compliance with reporting requirements and different national priorities. This can result in actual or perceived lack of consistency towards climate change-related reporting.

The number and variety of schemes designed for disclosure of climate change-related information, the variation between them and the different reporting practices that have developed are at variance with the global nature of climate change, producing variation in the quality, quantity and relevance of disclosures and prevent the effective use of information by markets and shareholders.

In response to these problems, CDSB co-formed an inter-agency working group with the OECD, UNCTAD and GRI to consider the potential for greater consistency of approach towards climate change-related reporting. Based on that work, CDSB and the OECD published reports setting out their findings and analysis of the current state of climate change-related reporting. The Consistency Working Report was formally launched at the sustainable stock exchange event at Rio+20 in 2012, with advanced thinking unveiled at the CDSB Japan Symposium in February 2012.

"The case for consistency in climate change-related reporting", authored by CDSB, endeavours to clear up the confusion in the market place by distinguishing and addressing certain alignments between carbon reporting schemes and their approaches to interpretation and application of climate change-related data. It was found that while the propagation of numerous reporting standards and schemes reflect the demand for such disclosure, the variety of standards can cause practical and technical difficulties. Technical difficulties include¹⁰;

- + **Organisational boundaries**
- + **Entity Coverage**
- + **Type of GHG**
- + **Scope of GHG**
- + **Verification standards**
- + **Methodologies prescribed**
- + **Type of Information.**

¹⁰ CDSB Symposium, Tokyo, 23 February 2012, Consistency in climate change disclosure: Cooperation between OECD and CDSB.

More broadly other key findings from the report which support the delivery of CDSB's mission are:

- + Corporations can self-select reporting standards, based on where they operate or their nature of business, except where requirements are prescribed in law – this creates the impression of inconsistency and confusion among stakeholders;
- + While there is strong evidence and demand for greater consistency of standards, it must be balanced with the need for flexibility to cater for the different natures of business;
- + Majority of evidence and commentary suggests an opposition to a wholly new global standard, rather drawing upon existing frameworks and improving on them, and will likely involve integration at the institutional/jurisdictional level through securities agencies, stock exchanges, regulators, rating agencies;
- + Technical challenges to consistency include organizational boundary, determination of materiality, and relevance to multiple audiences, both of which should align to some extent with current mainstream financial reporting standards;
- + Technological challenges arise to consistent GHG reporting, as data collection methods vary between calculations based on various estimations and formulas, and direct measurements from emission sources. Technological assumption, inconsistencies and uncertainties affect reporting and consequently interpretation and usage by stakeholders;
- + Communication remains key for investor groups, as performance or emission indicators can include generic and industry specific or physical and economical, as well as absolute volumes or intensity ratios. Different jurisdictions require different indicators while industry specific provides meaningful communication; and
- + Regular reviews and assurance of climate change reporting standards are essential as theories, methodologies and rules are constantly developing to provide accuracy, and also to eliminate poor practices or inconsistency within companies' reports.

The consistency report can be downloaded from:
cdsb.net/ConsistencyReport

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The second report released as part of this series was authored by the OECD entitled “Transition to a Low-Carbon Economy – Public Goals and Corporate Practices”. The report¹¹ explores trends in corporate GHG reporting around the world due to regulatory and voluntary regimes; the motivations and challenges for a corporation to achieve GHG emission reductions; and companies' use of that information so as to increase value towards the corporation itself and its stakeholders.

The report noted that regulatory stability and clarity is needed to unlock the potential for the reduction of companies' emissions. To move beyond just energy consumption reduction, governments need to create policy stability and price signals such that renewable technologies and business model reconfiguration may be pursued actively. The ambition of establishing corporate targets is likely to remain low in the absence of clear policy incentives and common approaches to setting targets.

While most companies report on their Scope 1 and 2 GHG activities, the bulk of emissions are often produced outside the companies' operating boundaries, through supply chain and use/disposal. Companies will need to drive emission reduction initiatives through working with customers and supply chain. Governments will need to provide strong support and a level playing field, if a shift to a low-carbon economy is desired. x

The OECD report *Transition to a Low Carbon Economy – Public Goals and Corporate Practices* can be downloaded from: cdsb.net/OECDreport

¹¹ <http://www.oecd.org/corporate/mne/45513642.pdf>

Integrated reporting

Climate change and Integrated Reporting

The World Economic Forum identified climate change and climate change-related risks as a key feature of their 2013 Global Risks Report , leaving no doubt that climate change is a material issue in today’s business environment. Climate change and its impacts, both positive and negative, are a reality for all companies irrespective of the industry or geographical region in which they operate. Therefore, it is important that a company evaluates the risks and opportunities to which their operations are exposed to by climate change, and include those that are most material to the company’s operations in the mainstream disclosures, including an integrated report.

An integrated report is a comprehensive disclosure of an organization’s strategy, governance, performance and prospects which lead to the creation and preservation of value over the short, medium and long term while reflecting the commercial, environmental and social context in which the organization operates. Integrated Reporting is a process that results from integrated thinking and an integrated report is the communication output as a result of this process. Such communications that result from integrated thinking will be of benefit to a range of stakeholders, but as with the outputs of CDSB’s Framework, they are principally aimed at providers of financial capital to inform their allocation decisions.

The International Integrated Reporting Council (IIRC) states that “integrated thinking enables an organisation to understand better the relationships between its various operating and functional units and the capitals the organisation uses”. Integrated Reporting enhances accountability and stewardship with respect to the broad base of capitals (financial, manufactured, human, intellectual, natural, and social) promoting understanding of the interdependencies between them. Figure 2 visualizes the importance of the aforementioned capitals for business in how they create and sustain value in short and long term. This approach captures the essence of what is required for any business to address successfully the way in which they affect and are impacted by climate change. For many organizations, climate change impacts on all aspects of their business and the capitals on which it depends for success. Therefore, the planning and implementation of adaptation and mitigation actions should reflect this reality.

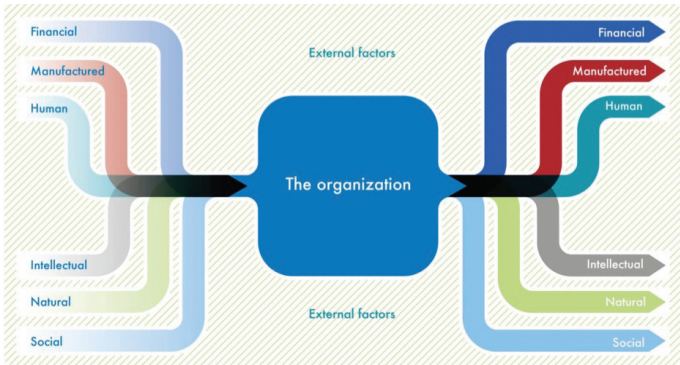


Figure 2: Each capital is interrelated and therefore has the potential to create and sustain value. Source: IIRC

Although focused on environmental disclosure, the reporting principles established by CDP and CDSB for climate change reporting purposes can be extended to most other forms of corporate reporting. The requirements for organizations to report on material business strategy, risk, opportunity, performance and governance, as outlined by the IIRC’s Draft Prototype Framework, mirror the requirements of CDP’s information request and CDSB’s Climate Change Reporting Framework.

CDSB’s Reporting Framework is an early example on how to apply the principles of Integrated Reporting with respect to reporting on climate change. Through Table 02, it is clear that there are number of shared principles between the report, aiding companies in their Integrated Reporting where climate change affects the reporting organizations’ ability to create value.

	CDSB Framework	IIRC Prototype Framework
Strategic focus	Yes (4.3-4.8)	Yes (3.2-3.6)
Description of strategy	Yes	Yes
Risks and opportunities	Yes (4.9-4.11)	Yes (3.3)
Balances short and long term interests	Yes (4.4)	Yes (3.3)
Future looking / orientation	Yes (2.16 and 4.14)	Yes (3.4-3.6)

Table 02: Comparison of CDSB Framework and IIRC Prototype Framework

“

Extreme weather events during 2012 have emphasised the risks that climate change issues pose to many businesses. Integrated reporting requires a business to disclose the material issues that impact on its ability to create value. In that context, businesses across many sectors will be looking to increase their disclosure of climate risks and opportunities in their integrated report”

Professor Mervyn King, IIRC Chairman

“

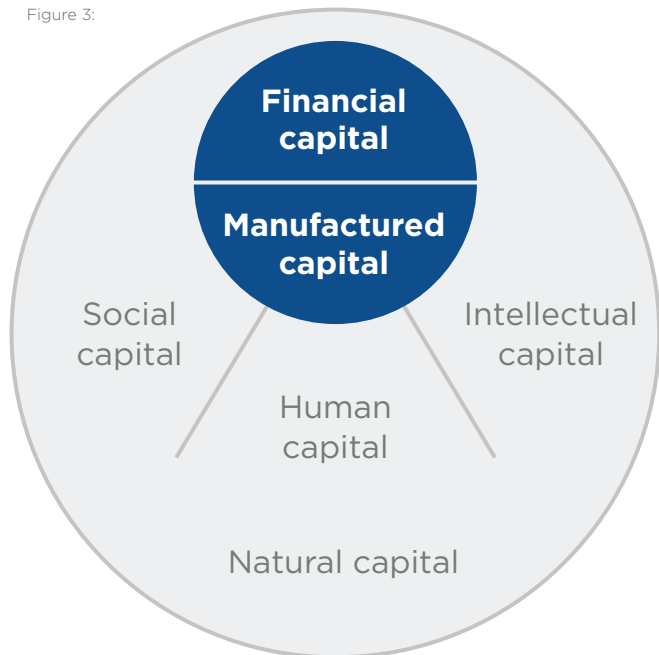
CDP was in fact one of the earliest pioneers and exemplars of Integrated Reporting, encouraging companies to put their GHG emissions in their annual reports.”

Nigel Topping, Chief Innovation Officer, CDP

Figure 3 depicts the capitals in Integrated Reporting. It encapsulates all the capitals within natural capital, indicating that all things derive from and depend on the natural world. Financial and manufactured capitals are shown as a subset of human, social and intellectual capital, indicating that economic considerations are in a sense there only to serve our needs, rather than existing in their own right. The important point about the capitals model with respect to Integrated Reporting is not how the capitals are categorized, or how they are depicted in relation to each other, or even how each one is defined or described; but rather their role as a tool to help organizations ensure they consider all their material dependencies and impacts when telling their unique value creation story in the integrated report.

These synergies raise questions for reporting organizations including whether conformance with CDSB's Climate Change Reporting Framework is an acceptable way of making disclosures about climate change in an integrated report. The IIRC Framework will not be prescribing requirements for measuring of environmental indicators or impacts disclosed in integrated reports. Therefore, referencing the work of organizations that prescribe such measurements is likely to be of assistance to reporting companies. Furthermore, as policy makers increasingly require environmental disclosure, it is important that climate disclosures are compatible with regulatory developments. Through its “consistency project” (see page 11 of this report), and work with policy makers, CDSB has already ensured, as far as possible,

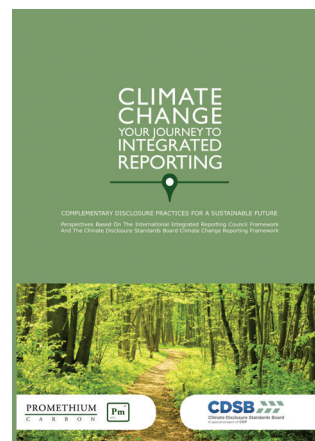
Figure 3:



that its work is suitable for adoption by regulators.

To support companies' reporting journey, CDSB in partnership with Promethium Carbon, have produced the report “Climate change and integrated reporting: Complementary practices for a sustainable future”. The report is a practical tool with guidance and examples that can assist businesses to integrate climate change into the heart of their organizations' strategic decision-making.

Today, limited transparency around corporate sustainability risks can lead to investments that are damaging for the environment and for investors' bottom lines. Tomorrow, companies that embrace Integrated Reporting can look forward to navigating much safer (and cleaner) waters when it comes to avoiding reputational or operational icebergs. x



The report *Climate Change: Complementary practices for a sustainable future* can be downloaded from:

cdsb.net/IRandCC

XBRL

Companies around the world are increasingly expected to report their greenhouse gas emissions. As we know from this report, there are various ways to calculate emissions, and there are different reporting formats. Most of these formats are static digital or printed files and thus not ideal to harness the powers of computer analysis. Analysis of financial impacts are important for management decisions and corporate evaluations by interested third parties. A standardized reporting format for GHG emissions and climate change data is critical for reliable analysis of the impact of emissions on finances. There is also a global shift to digital.

Recognizing that regulators around the world are mandating the use of XBRL format for electronic filing of statutory reports, CDP and CDSB have defined the XBRL Climate Change Reporting Taxonomy so that the data language can evolve alongside standards and practices for disclosing climate change-related information, ensuring that stakeholders can provide input and guidance.

Simply put, eXtensible Business Reporting Language (XBRL) is a freely available, open source standard to categorize information in a digital format. It allows information to be 'tagged' in order to link it to agreed definitions and define its relationship with other data. These definitions and relationships are established in 'taxonomies'.

The Climate Change Reporting Taxonomy Project developed a taxonomy that is the representation of the CDP information request and CDSB's Climate Change Reporting Framework. This allows investors and other stakeholders to speed up, enhance and extend the analysis of climate change data collected in a well-known and established way. Long term, the intention is that the data standard will establish the necessary links between financial business data and reporting and the new needs of information for a low carbon economy.

The main objective behind the creation of this standard is to reduce the administration and cost for reporting organizations and promote the delivery of standardized information to markets and a range of different stakeholders, by facilitating the filing of climate change-related information in an electronic standard format. On the side of the preparer, XBRL helps eliminate entry

errors by containing links to related information, thus keeping track of data points and protecting contextual information.

Since 2009, all Japanese corporate financial statements must use an XBRL format. Therefore, disclosing emissions data by using XBRL will be very beneficial for the analysis of the financial positions and emissions results of these companies. Interested companies will want to combine the XBRL reports of the financial data and emissions data. This will allow third parties to easily evaluate the companies from both the financial and environmental perspectives with the added value of the Climate Change Reporting Framework and the power of XBRL analysis.

XBRL really comes to life in the hands of the report users. Simple software can be developed to process very large amounts of data and present it in a way that is most suitable for the individual. This could be a website, a computer application or even a phone app. The only limit is imagination. x

Find out more:

The climate change reporting taxonomy project:

cdsb.net/xbrl

Try out the taxonomy:

cdp.net/xbrl

“

Fujitsu is very excited and glad that CDSB decided to adopt XBRL as a reporting format for the Climate Change Reporting Framework. We believe XBRL is the technology that increases reusability of the Framework and interlinks it with other reporting frameworks such as Integrated Reporting, GHG Reporting and GRI. We also believe this activity could establish a valuable reporting environment for investors.

Fujitsu, as a leading XBRL technology vendor would like to support the CDSB's activity to make this happen and change the world.”

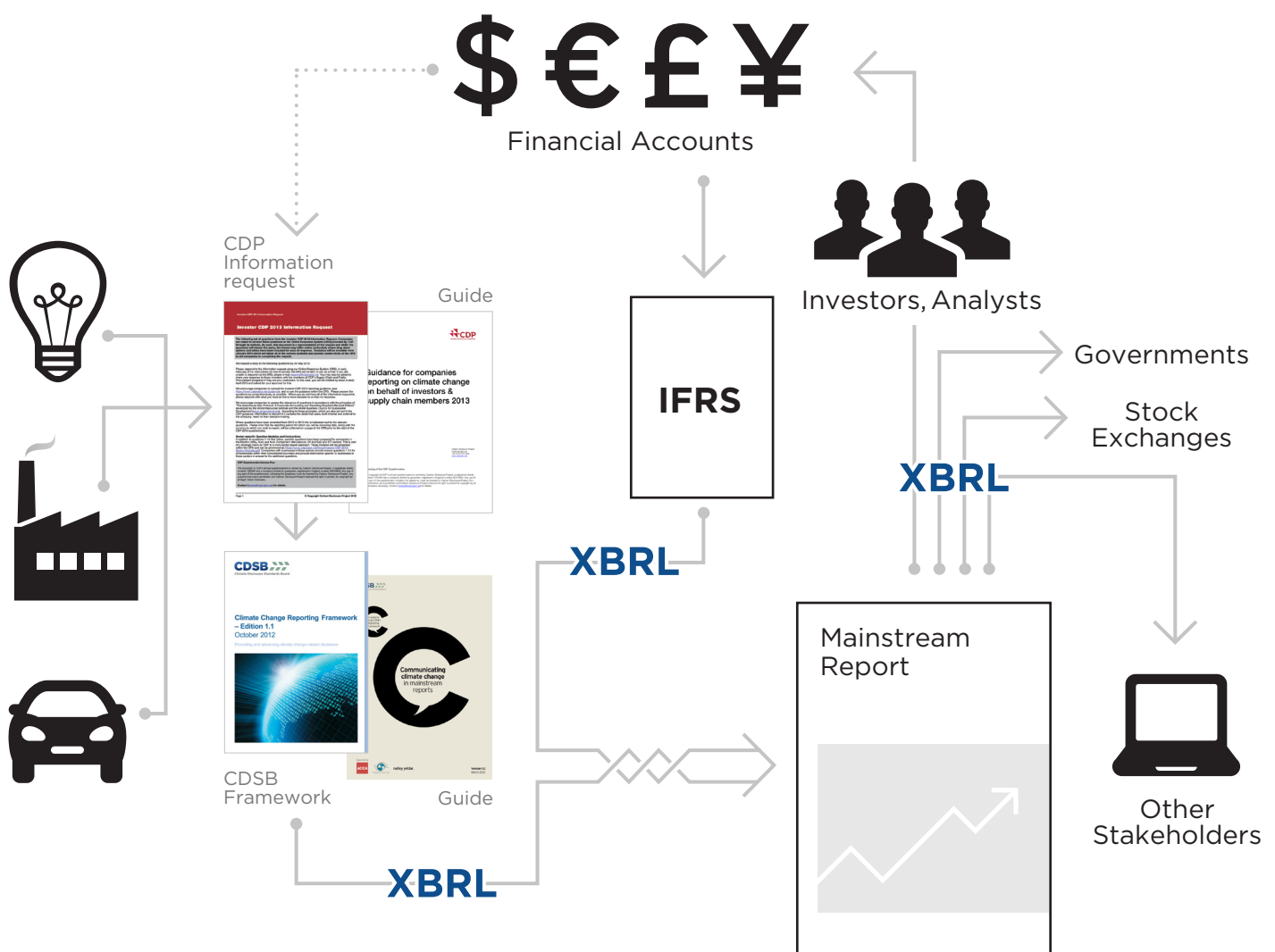
Fujitsu Limited

Toolkit for climate change related disclosure and reporting

Together, CDP and its special project CDSB provide a full disclosure toolkit for companies on carbon and climate change, both in reporting to financial markets and in preparing for, and adhering to mandatory reporting around the world. Companies are advised to disclose in full to their shareholders and customers through CDP and can then consolidate the information that is most financially material into their mainstream reports using the CDSB Framework.

CDP's information request is a key process in collecting climate change, related management, and financial data in

order to assess an organization's performance. CDSB's Climate Change Reporting Framework is a tool for consolidating this information in order to prepare it for inclusion in financial or integrated reports in a decision-useful way, ensuring that the content is aligned with both GHG and financial standards. At the end of this process companies can distribute highly structured data to multiple recipients from a single source using the XBRL Climate Change Reporting Taxonomy. XBRL allows better analysis and thus better information for capital allocation decisions. x



CDSB Pilot Program — Japan Focus

Overview

Japan is the world's third largest economy and continues to be a major global capital market. It is home to some of the world's most iconic, innovative and successful businesses. In his introduction to the CDSB –Japan symposium in February 2012, Mr Sueyoshi referenced a United Nations Environment Program Finance Initiative opinion letter linking climate change with global economic fluctuations. It concludes that the financial sector must therefore recognise climate change as its own problem and start working on it.

If the financial sector is to act on this, financial actors must receive information in formats and language through channels with which they are familiar. Although climate change reporting practices are widespread amongst Japanese companies, information appears primarily in voluntary and sustainability reports rather than as part of a mainstream report in which annual financial statements are published. As a result, the links between overall corporate strategy, financial performance and climate change issues are often not made by companies or investors. This is a common situation throughout the world. However, through the work of the Japanese Institute for Certified Public Accountants (JICPA) and governmental and industry bodies, significant opportunities exist in Japan to harness and develop the capacity that has been built through voluntary reporting.

In order to develop reporting further so that climate change-related information may be integrated into mainstream reports, significant input and feedback is needed from all relevant stakeholders including government, corporations and investors. The FCO sponsored pilot project that commenced in Japan in August 2011 was an ideal opportunity to start working on these developments.

The project commenced in August 2011 with the appointment of two governance bodies to inform and participate in the work of the pilot program.

A sub-committee of policy makers, academics and accountancy experts was set up to establish and inform the activities of the working group. The working group included representatives from large high performing Japanese corporations whose disclosure score was over

80 in CDP 2010, CDP 2011 signatories, and companies listed on Japanese, NYSE and LSE and large Japanese investment institutions. These representatives added the preparer and user perspective to the pilot program, ensuring relevance and practical considerations were taken into account.

A series of meetings across the duration of pilot project with the combined activities of these 2 governance bodies aimed to feed the Japanese perspectives into the revisions of the global Climate Change Reporting Framework and also to explore how to promote climate change disclosure in Japan. The project culminated in a symposium on 23rd February 2012 to share not just the experience and learning but the start of companies accumulating practice to support future implementation of CDSB's Climate Change Reporting Framework.

Outcomes

This was the first time CDSB's work had been formally taken outside the United Kingdom for advocacy and engagement, and thus CDSB's Board was invigorated by the number of high calibre participants and the quality of the discussions and feedback.

There was a frustration from the investors and regulators participating in the pilot group that companies in Japan (and across the world) are not disclosing information about risks in financial reports. They recognized that reporting of non-financial information is only meaningful when it is consistent with financial reporting and that voluntary sustainability reporting leaves too much scope for companies to be selective about their disclosures and to focus only on positive aspects of performance.

As the primary users of reports, the investors' perspective was acknowledged as being crucial. Companies participating in the project welcomed investors' input. Investors said that they use corporate reports in order to value and assess the condition and performance of companies. They commented that one of their biggest problems in conducting such assessments is the current ambiguity of much non-financial information, including disclosures on environmental performance, social commitments and governance. Consequently investors find it hard to incorporate non financial information into their models or to draw conclusions from it. Investors

therefore called for more systematic and standardized disclosure in order to provide them with comparability, consistency and transparency.

Robust, high-quality and consistent information is particularly necessary for making assessments about long-term performance and investment. Financial statements alone are generally sufficient for analysts planning up to one year ahead. However, non financial information is required to assess longer term prospects. Long term vision is needed urgently to address this challenge. It was also noted that investors use the climate change data in annual reports – however it was felt that the information CDSB's Climate Change Reporting Framework requests is more likely to be used by investors in Europe than those in Japan so a lot of Japanese corporations are starting to disclose such non-financial information in the English version of their annual report.

Companies outlined the challenges of breaking down the silo culture in large global corporations so that finance and sustainability staff were able to engage with one another. The significance of reporting non-financial information such as climate change is not always fully understood in finance departments, making collaboration more challenging. As part of the CDSB-Japan project, five Japanese companies are now actively attempting to overcome these barriers and apply the principles and requirements of the Climate Change Reporting Framework – up from zero at the start of the project and setting Japan ahead of other Asian countries with respect to uptake of the Framework for reporting. Through this attempt, the reporting required by the Climate Change Reporting Framework might not be too challenging for companies as they have already held some sort of such information and disclosed them in their annual report/ CSR report or CDP response, apart from their future outlook which was commonly pointed out as the most difficult part to be reported.

As well as the practical challenges associated with reporting, companies raised concerns about technical aspects of reporting, including the way in which organizational boundaries should be drawn. It was noted that the GHG Protocol approaches of financial control,

operational control and equity share are normally used for organizational boundary setting in voluntary climate reporting. However, mainstream reporting normally follows the organizational boundary approach prescribed by financial reporting standards and defined by reference to those entities that must be included in consolidated financial reports. There was apprehension about disclosing using the Climate Change Reporting Framework with the limitations of the current legal system in Japan where the regulatory environment is very similar to the USA. CDSB is aware that this apparent misalignment is a problem faced by many companies around the world and has updated its Climate Change Reporting Framework (October 2012 version 1.1) to set out an approach that enables GHG Protocol organizational boundary approaches to be reconciled to financial consolidation in most cases.

The working group suggested CDSB work closely with governments to promote comprehensive climate change-related reporting based on the information in Chapter 4 of the Climate Change Reporting Framework and not restricted only to GHG emissions reporting. This action is to be taken forward by CDP Japan as part of its on-going regulator engagement program.

Next steps

This work is the start of CDP & CDSB's on-going dialogue with companies, investors, accounting bodies, the stock exchanges and government departments and agencies in Japan as CDSB drives the trend to include climate change-related information into annual reports.

As CDSB is a global organisation, the learning from this initial pilot working group will be used to inform CDSB's work program and future revisions of the Climate Change Reporting Framework by taking the best practice in Japan and using it to drive common practice across Asia and the rest of the world. Globally, companies that commit to climate change leadership have generated demonstrably superior returns for stakeholders. Now is the time for Japanese corporate leaders to champion the required organizational transformation to succeed in an uncertain, resource-constrained world. **x**

Participants

CDSB and CDP would like to thank the following individuals and their respective organisations outlined below for their time, enthusiasm and honesty in supporting our pilot work group.

Sub-committee:

+ **Professor Takeshi Mizuguchi**

Takasaki City University of Economics

+ **Yoichi Mori**

Certified Public Accountant

Member, CDSB Technical Working Group

+ **Kazuhiko Abe**

PricewaterhouseCoopers Aarata

Sustainability Certification Co., Ltd.

+ **Toshiki Oka**

Ernst & Young Sustainability Co., Ltd.

+ **Satoshi Hasegawa**

KPMG AZSA Sustainability Co., Ltd.

+ **Kazuhiko Saito**

KPMG AZSA Sustainability Co., Ltd.

+ **Asako Nozaki**

Deloitte Touche Tohmatsu LLC

+ **Mizuko Mase**

Deloitte Touche Tohmatsu LLC

+ **Nobuyuki Hiratsuka**

Ministry of Economy Trade and Industry

+ **Masatu Arai**

Social Investment Forum Japan
(SIF Japan), Chair

+ **Masao Seki**

Sompo Japan Insurance Inc.

+ **Hidemi Tomita**

Lloyd's Register Quality Assurance Limited

+ **Haruhiko Nakada**

Bank of Tokyo-Mitsubishi UFJ, Ltd.

“ We realized the importance and efficiency of carbon disclosure through discussion to the multi-stakeholders. Taisei Corporation will publish the first integrated report in June 2012 and believe this is an embodied result of the CDSB meeting theme”.

TAISEI CORPORATION

“ Participating in the CDSB Working Group, we could realize that the deep analysis of the climate change impact to our business in the process of identifying its risks and opportunities is necessary for the integration between the environment and business strategy.

TOTO Ltd.

Observers:

- + Ministry of Economy, Trade and Industry
- + Ministry of Environment
- + British Embassy Tokyo

Working group:

- + Daiwa Securities Group Inc.
- + Development Bank of Japan Inc
- + Hitachi, Ltd.
- + Honda Motor Co., Ltd.
- + Kao Corporation
- + Kirin Holdings Company, Limited
- + Mitsubishi Corporation
- + Nikko Asset Management Co., Ltd.
- + ORIX Corporation
- + Panasonic Corporation
- + Ricoh Company, Ltd.
- + Sompo Japan Insurance Inc.
- + Sony Corporation
- + TAISEI CORPORATION
- + Tokio Marine Holdings, Inc.
- + TOTO Ltd.

“Through the trial basis use of the Climate Change Reporting Framework, it was a very worthwhile experience to participate in building the international Framework. In addition, some issues of preparing reports according to the Framework came in sight gradually. In-house, there was an effect of increasing the communication between the environment department and the IR department. Through the activities in the working group, it was very worthwhile to engage with investors, accountants, and auditing firms. We will continue to cooperate with CDSB to establish an effective disclosure system in society.”

Kirin Holdings Company, Limited

“Through our trial of the usage of the Climate Change Reporting Framework, we understood that the Framework would be a strong tool for the enhancement of our carbon management as it could expose our strength and weakness of our existing carbon management.”

Honda Motor Co., Ltd.

Participants

“Developing new disclosure needs not only concept but also accumulating practices. In this sense, I appreciate dedicated efforts of companies that joined this trial project as a first step. I expect that companies will continue to disclose climate change-related information and investors will start to appropriately use this information. At the same time the Government should discuss how to integrate this kind of information into mandatory financial reporting.”

Professor Takeshi Mizuguchi

“We re-acknowledged the importance of promoting environmental activities by linking them with business, and also disclosing the strategies, targets, and results of those activities to our investors in an easy-to-understand manner. In 2010 Panasonic set its vision looking to the 100th anniversary of its founding and decided to aim to integrate its environmental contribution and its business growth throughout the entire Group. We will continue to carry out our responsibility of disclosing information on matters such as global warming prevention activities to our stakeholders including investors, in our unique way that suits the characteristics of our business and environmental activities.”

Panasonic Corporation

www.cdsb.net

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