Climate Disclosure Standards Board

Climate Change Reporting Framework – Edition 1.1

October 2012

Promoting and advancing climate change-related disclosure

Preface

About The Climate Disclosure Standards Board

The Climate Disclosure Standards Board (CDSB) is an international organization committed to the integration of climate change-related information into mainstream corporate reporting. CSDB advances its mission by acting as a forum for collaboration on how existing 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.

Governance

CDSB is governed by a Board whose members are drawn from business and environmental organizations. CDSB's day-to-day work program is managed as a special project of CDP, www.cdproject.net. The CDSB Secretariat is supported by a Technical Working Group and a network comprising business representatives, climate change and business NGOs, investor groups, academia, global accountancy firms and their membership bodies. An overview of CDSB's governance may be found at www.cdsb.net/governance.

CDSB's Ambition

CDSB responds to the demand for a global reporting model that ensures fair and transparent markets and inspires confidence in reporting.

CDSB's aims are to:

- Promote, advance and encourage greater standardization of 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; and

- Support assurance of climate change-related information through the specification of requirements and criteria that may be used for assurance activities.

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 progress in response to climate change.

Background to the Climate Change Reporting Framework (CCRF)

Demand from a variety of stakeholders and the introduction of regulatory requirements for the provision of information has resulted in organizations making climate change-related disclosures and in the development of standards for certain types of information, particularly greenhouse gas emissions. Although they have developed against different policy backgrounds, the various mandatory and voluntary schemes involving climate change-related disclosure that have emerged around the world share some fundamental characteristics. CDSB's approach to developing the CCRF has been to consolidate and complement, but not unnecessarily to duplicate, those shared characteristics in order to help standardize climate change-related disclosure in mainstream financial reports. CDSB has developed its CCRF and guidance based on research, analysis and good practice, drawing on the work of its Board members and recognized standard setters and on international regulatory developments.

The CCRF was originally released as an Exposure Draft, with a Basis for Conclusions document, for public consultation in May 2009 at the World Business Summit on Climate Change. CDSB published Edition 1.0 of the CCRF in September 2010. Edition 1.1 of the CCRF released in October 2012 reflects updates to some of the IASB's pronouncements and standards and incorporates changes to paragraphs 4.22 – 4.27 that are designed to clarify CDSB's approach to organizational boundary setting and to support the long-standing practices that have been established through widespread adoption of the GHG Protocol. More information about the amendments to paragraphs 4.22 – 4.27 of the CCRF can be found on CDSB's website at www.cdsb.net/frameworkupdates.

Edition 1.1 October 2012 of the CCRF 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 will build upon and update the CCRF over time in the light of experience of working with it and in response to developments in climate change disclosure practice globally. The Basis for Conclusions at Appendix 1 to the CCRF pertains to conclusions reached in relation to version 1.0 September 2010. Conclusions that inform updates to the CCRF, including to version 1.1 October 2012 may be found on CDSB's website at www.cdsb.net/frameworkupdates.

We welcome your input and discussions. If you would like to comment on the CCRF, please contact us at info@cdsb.net.For further information, please consult our website, www.cdsb.net.

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Chapter 1 – Introduction

Objective

1.1 Information about the way in which climate change affects the strategy, performance and prospects of organizations is useful in providing users of mainstream financial reports with a basis on which to assess the ability of organizations to manage the risks, opportunities and financial impacts associated with climate change. The objective of the CDSB Climate Change Reporting Framework (CCRF) is to elicit information of value to investors in gauging how climate change affects the strategy, performance and prospects of organizations.

1.2 In support of this objective, the CCRF sets out requirements that should underlie disclosures about climate change that are made in or are linked to information about financial performance in mainstream financial reports. In order to assert conformance with the CCRF, an organization must apply the CCRF requirements when determining, preparing and presenting its climate change-related disclosures with the help of the guidance and explanatory material herein.

Definitions and denotations

1.3 The following terms are used in the CCRF with the meanings specified:

Climate change-related: The types of subject matter or information established by leading climate change and sustainability initiatives as representing information about climate change that is of interest to investors and others. Climate change -related information of interest to investors generally falls into the categories of strategic analysis, risk and governance and greenhouse gas emissions reporting, as described in Chapter 4 of the CCRF.

Mainstream financial reports: The term is defined in paragraphs 1.10 – 1.12 below. The CCRF requirements apply to climate change-related disclosures that are made in **or linked to** information in mainstream financial reports. The term "linked to" recognizes that:

- disclosures may be cross referenced to or from relevant sections of the mainstream financial report (see paragraph 2.33) or company website; and
- organizations in some jurisdictions prepare voluntary annual reports for investors. Such reports generally provide financial and non-financial information beyond regulatory requirements, including climate change-related information. Although it is primarily designed for disclosure of climate change-related information in mainstream financial reports, organizations are not precluded from using the CCRF to prepare voluntary annual reports. However, where climate change-related disclosures are made in voluntary annual reports and linked to mainstream financial reports, or where voluntary annual reports claim conformance with the CCRF, its requirements must be satisfied as described herein.

Organization: Except where otherwise specified[1], organization means the group, company, companies or entities for which consolidated financial statements are prepared, including subsidiaries and jointly controlled entities for which equity accounts are prepared.

Performance: The performance of an organization is affected by the economic resources it controls, its financial structure, liquidity and solvency and its capacity to adapt to changes in the environment in which it operates. Financial performance is the ability of an organization to earn a profit from the resources that have been invested in it. It also takes into account the actual and potential impacts on performance, viability and earnings/growth of the activities of stakeholders and/or of systematic risks[2].

Regulatory requirements: For the purposes of the CCRF, regulatory requirements include provincial, local, state, national or regional legislation and government-sponsored rules that cover any of the categories of information listed in Chapter 4 of the CCRF, including regulatory requirements that:

- prescribe rules and/or reference standards and/or methodologies that directly or indirectly affect the way in which greenhouse gases are measured and reported; and
- explicitly or implicitly require disclosures in annual corporate or securities filings regarding risks and strategies relating to the effects or management of climate change.

1 Special requirements apply for setting the organizational boundaries for greenhouse gas emissions reporting as explained in Chapter 4.

2 The definition of performance is based on paragraphs 15 – 20 of the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements (adopted April 2001).

1.4 ***Requirements*** to establish conformance with the CCRF are presented throughout using the term "shall" and are shown in ***bold italicized text***. All other text represents guidance and explanatory material. The CCRF requirements are summarized at the end of Chapter 2.

User focus

1.5 The CCRF's objective is aligned with the objective of financial reporting, which is to provide information about the reporting organization that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers[3]. In common with this objective, the CCRF concentrates on investors as the primary users of information in mainstream financial reports. However, information that is useful to investors may also be useful to other users of financial reporting; the needs of other users may be met by focusing on the information needs of present and potential investors[4].

Intended outcomes

1.6 The requirements support the CCRF's objective by encouraging a harmonized approach to the preparation of climate change-related disclosures that:

- complement and supplement financial statements in order to place related financial information in context and to meet the needs of investors;
- inform investors what management views as the most important climate change-related issues, including those affecting the organization's strategy, economic performance and prospects;
- enable investors to assess the climate change-related strategies adopted by the organization, the governance processes in place to manage them and the likelihood that those strategies will be successful;
- provide transparent and consistent climate change-related information over time that enables comparisons to be made between organizations;
- are based on criteria that are suitable for conducting assurance activities; and
- meet many of the needs of other information users.

Status

1.7 The CCRF is a voluntary framework to be used for the disclosure of climate change-related information in, or linked to mainstream financial reports. It is aligned to relevant principles and objectives of financial reporting specified in materials published by the International Accounting Standards Board (IASB), but neither the IASB nor its member bodies have been consulted on the positions taken in the CCRF.

1.8 The CCRF contains requirements about how climate change-related disclosures shall be determined, prepared and presented. Requirements are to be applied wholly and faithfully with the help of the associated guidance and explanatory material herein by organizations that assert conformance with the CCRF.

Influences

1.9 Climate change-related information can take many different forms and can be presented through a variety of channels. The requirements set out in the CCRF are aligned as far as possible with, and aim to bring together relevant principles from, existing standards, models and practices, including:

- financial reporting standards, principles, proposals and discussion papers issued or commissioned by the IASB, its predecessor bodies and national counterparts;
- legislation and guidance issued by regulators on aspects of climate change-related information;
- good practice in corporate climate change-related disclosure, building on the activities already being advanced by organizations to manage and report on risks, opportunities and strategies related to climate change;
- developments in business reporting models; and
- the work of CDSB Board Members and standard setters including the World Resources Institute Greenhouse Gas Protocol Team, developers of the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) and associated regional program protocols and the International Organization for Standardization's ISO 14064-1, "Specification with guidance at the organizational level for quantification and reporting of greenhouse gas emissions and removals".

3 IASB Exposure Draft of An improved Conceptual Framework for Financial Reporting (May 2008), Chapter 1, paragraph OB2.

4 CDSB Basis for Conclusions document May 2009, paragraphs 4.3 – 4.4 and the UK Accounting Standards Board December 1999 Statement of Principles for Financial Reporting Chapter 1.

Mainstream financial reports

1.10 Mainstream financial reports are the annual reporting packages in which certain organizations are required to deliver their audited financial results under the corporate, compliance or securities laws of the territory or territories in which they operate. Mainstream financial reports are normally publicly available. They provide information to existing and prospective investors about the financial position and financial performance of the organization and are distinct from material published separately. The exact provisions under which companies are required to deliver mainstream financial reports differ internationally. A full list of mainstream reporting requirements by jurisdiction is beyond the scope of this document but examples include the:

- Australian Corporations Act 2001;
- Singapore Companies Act;
- New Zealand Companies Act 2003;
- US Securities and Exchange Commission Regulations S-K;
- UK Companies Act 2006;
- Japan Financial Instruments and Exchange Act; and
- Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

1.11 Mainstream financial reports include:

- **financial statements**, which are the primary financial statements together with explanatory notes prepared in accordance with a financial reporting framework, such as International Financial Reporting Standards (IFRS)[5], national standards or local generally accepted accounting practices; and

- **other financial reporting**, which comprises *"information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions."*[6] The main component of other financial reporting is management commentary[7], also described as management discussion and analysis (MD&A). The CCRF uses the term "management commentary" to encompass MD&A and descriptions of equivalent reporting used by different jurisdictions. Management commentary supplements financial statements by providing additional explanations of amounts presented in the financial statements and explains the conditions and events that shaped that information. It also includes non-financial information about the entity and its performance that is not presented in financial statements[8].

1.12 Whilst the CCRF is designed for disclosure of climate change-related information in or linked to mainstream financial reports, it does not provide requirements or guidance on accounting for, or valuing in financial statements, the financial implications of climate change, or of mitigation and adaptation activities.

Assurance

1.13 By providing information under the CCRF, organizations are expected to apply the same rigor and management responsibility as is appropriate to all statements and disclosures presented in the mainstream financial report, whether audited or not. Under International Standards on Auditing (ISA 720), the financial statements auditor is required to read the information accompanying audited financial statements to identify any material inconsistencies between it and the audited financial statements and to consider any observed material misstatements of fact in those disclosures. This minimum level of auditor involvement ordinarily results automatically from including climate change-related disclosure in mainstream financial reports.

1.14 For assurance beyond the minimum level of auditor involvement, CDSB encourages organizations to work with their professional advisors to agree an appropriate assurance approach to disclosures made under the CCRF by reference to existing assurance standards, such as:

- International Standards on Assurance Engagements (ISAE) 3000 and 3410[9].,
- the International Organization for Standardization's ISO 14064-3:2006[10]; and
- AccountAbility's AA1000 assurance standard.

5 International Accounting Standard (IAS) 1, Presentation of Financial Statements, paragraph 9 defines "financial statements" in jurisdictions that have adopted IFRS as "a structured representation of the financial position and financial performance of an entity."

6 Preface to International Financial Reporting Standards (IFRSs), paragraph 7.

7 In so far as the principles of management commentary are relevant to its development, the CCRF relies on the draft IFRS practice statement on Management Commentary issued by the IASB in December 2010.

8 IFRS Practice Statement on Management Commentary, December 2010, paragraphs 14 and 34.

9 "Assurance engagements other than audits or reviews of historical financial information" and "Assurance engagements on Greenhouse Gas Statements."

10 Specification with guidance for the validation and verification of greenhouse gas assertions.

Chapter 2 – Requirements

Introduction

2.1 In order to achieve its objective and intended outcomes, the CCRF specifies requirements. The main requirements are:

1. *Determination*

   An organization shall determine the disclosures to be made under the CCRF according to the categories of disclosure content that are of value to investors and a process that involves a thorough assessment of how climate change has actually affected or has the potential to affect the organization's strategic objectives;

2. *Preparation*

   Disclosures shall be made on a consistent basis and shall include the information that is necessary to maximize its value to investors; and

3. *Presentation*

   Disclosures shall be presented and communicated so as to make them useful for investors.

The main requirements are elaborated below with more specific requirements, guidance and explanatory material. There is a summary of the requirements at the end of this Chapter.

2.2 The requirements appear in ***bold italicized text;*** all other text represents guidance and explanatory material.

All of the requirements are to be applied wholly and faithfully and they shall be read and applied in conjunction with:

- ***Chapter 3***, which describes the characteristics of decision-useful information that shall be applied in determining, preparing and presenting disclosures in accordance with the requirements; and
- ***Chapter 4***, which sets out the type of information that is useful to investors and is therefore to be considered for disclosure;
- The guidance and explanatory material that accompanies the requirements.

Requirements on determination

2.3 ***An organization shall determine the disclosures to be made under the CCRF according to the categories of disclosure content that are of value to investors and a process that involves a thorough assessment of how climate change has actually affected or has the potential to affect the organization's strategic objectives.***

2.4 The purpose of the requirement is to encourage management to apply judgment so as to:

- reflect the reality of the organization's business; and
- identify the information that is most important and relevant, subject to and taking into account all of the requirements of the CCRF and the needs of investors, management and regulators.

Content

2.5 ***Disclosures shall take account of the content requirements in Chapter 4 of the CCRF.***

Investor perspective

2.6 ***Disclosures shall focus on investors as the primary users of information.***

2.7 Disclosures should be determined and presented in such a way as to maximize decision-usefulness to investors in accordance with the qualitative characteristics of decision-useful information in Chapter 3.

Management perspective

2.8 ***Disclosures shall bring to bear management's view of the organization's strategy and objectives.***

2.9 Generally, the information that is important to management in managing the business is the same information that is important to users of mainstream financial reports for assessing the organization's financial performance and prospects[11]. Management's view of the organization's strategy and in particular the qualitative and quantitative drivers of operational performance, customers, brands and innovation, provides essential information to investors in assessing the organization's financial performance and condition in the context of climate change-related risks and opportunities.

11 IFRS Practice Statement on Management Commentary December 2010, Basis for Conclusions paragraph BC32.

Disclosure is useful when it:

- connects the information that management uses internally for decision-making purposes about the company's strategy, goals and objectives with information that is provided externally to investors for their decision-making;
- explains management's priorities for action as well as the time-scales involved, the trends, threats and opportunities that might affect those priorities and the resources that are required to deliver results[12];
- explains how managing climate change-related issues affects sales, costs, cash flow and brand value;
- explains management's view on not only what has happened, but also why management believes it has happened and what management believes the implications to be for the organization's future[13]; and
- shows the linkages between corporate climate change strategies, financial performance and greenhouse gases emitted by the organization.

2.10 Consideration of how climate change might impact achievement of the company's strategic objectives is likely to involve an assessment of:

- the principal risks and opportunities associated with climate change that threaten or support achievement of the organization's strategic objectives; and
- the actual and potential impacts of climate change, including its effect on:
  - resource availability;
  - relationships on which the organization is dependent (e.g.: suppliers);
  - the organization's capacity to innovate;
  - brand and reputational consequences; and
  - the organization's financial operations, cash flows and financial condition.

Regulatory perspective

2.11 ***Disclosures shall comply with regulatory requirements for financial reporting or corporate disclosure of climate change-related information. Where there is a conflict between the requirements of CCRF and the regulatory requirements, the regulatory requirements shall be applied and the nature and effect of the conflict disclosed.***

Requirements on preparation

2.12 ***Disclosures shall be made on a consistent basis and shall include the information that is necessary to maximize its value to investors.***

2.13 The purpose of the requirement is to elicit information of value to investors in a way that is consistent so as to enable a level of comparability between reporting periods, organizations and sectors.

2.14 Comparability[14] is the quality of information that enables users to identify similarities in and differences between two sets of information. Consistency refers to the use of the same policies and procedures, either from period to period within an entity or in a single period across entities. Comparability greatly enhances the value of information to investors and is therefore the objective of this requirement; consistency is the means to achieving that objective.

2.15 In the early years of its adoption, CDSB is aware that comparability of information provided under the CCRF between enterprises and sectors may be limited, pending development of disclosure approaches and practices. However within an entity, comparability over time should be achievable and depends primarily on consistency of approach to climate change-related reporting year on year. Consistent reporting of performance measures and indicators over time, according to consistently applied standards and policies, increases the comparability of disclosures over time. Further, performance measures, indicators, standards and policies must continue to be appropriate across reporting periods. When management changes the performance measures, indicators and standards and policies used, the reason for and effect of the changes shall be identified and explained in accordance with the requirement to provide comparative analysis as stated at paragraph 2.39.

12 IFRS Practice Statement on Management Commentary December 2010, paragraph 27.

13 IFRS Practice Statement on Management Commentary December 2010, paragraph 11.

14 The CCRF's interpretation of comparability in the context of climate change-related disclosure is based on and uses actual or paraphrased text from the IASB's September 2010 Conceptual Framework for Financial Reporting, paragraphs QC20 – QC25.

Future prospects and past performance

2.16 ***Disclosures under the CCRF shall enable investors to assess the future prospects of the organization as well as its past performance.***

2.17 Disclosures[15] should look to the present, past and future and should communicate trends and factors that are likely to affect the entity's future performance, position and development. Providing information about the future involves communicating, from management's perspective, the direction that the company is taking, including the organization's objectives and management's strategy for achieving those objectives. Forward-looking information[16] should be included where management is aware of trends, uncertainties and other factors that could affect the organization's performance and where information is likely to enhance understanding and portray the risk, opportunities and prospects of the organization over the short and long term. Forward-looking information should focus on the extent to which the organization's past performance is indicative of future results and should include management's assessment of the organization's prospects in the light of that performance. However, the extent to which such information is provided will be influenced by the regulatory and legal environment within which the organization operates. Appropriate cautionary statements and disclosures, including key assumptions, should accompany forward-looking information.

15 This guidance is based on paragraphs 34 – 36 of IFRS Practice Statement on Management Commentary, December 2010.

16 Certain jurisdictions specify rules applicable to the disclosure of forward-looking information for example, the Ontario Securities Commission Staff Notice 51-330 available at http://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20091120_51_330_forward_looking.htm.

Reporting period

2.18 ***Information shall be provided on an annual basis for the same period covered by the mainstream financial report, or for a period of twelve months ending in that period.***

2.19 The purpose of this requirement is to ensure that information is made available to decision-makers on a timely basis, at least once a year, before the information loses its capacity to influence decisions. Where information prepared under regulatory requirements is used to make disclosures under the CCRF and the reporting period specified by the regulator is different from the period covered by the mainstream report, the period specified by the regulator may be treated as coterminous with the period covered by the mainstream report within which it falls.

Organizational boundary

2.20 ***Subject to the CCRF recommendations about organizational boundaries for greenhouse gas emissions reporting (see Chapter 4), disclosures shall be made for the organization for which consolidated financial statements are prepared.***

2.21 Where it is not possible to provide information for all entities for which consolidated financial statements are prepared, the parts of the organization that are excluded should be clearly noted in the statement required by paragraph 2.22, together with details of the reason for any exclusions and disclosure of management's best estimate of how significant the exclusion might be.

Statement of conformance

2.22 ***Disclosures shall include a statement of conformance with the CCRF requirements. In cases where full conformance has not been possible because of the organization's particular circumstances, the statement shall identify those requirements with which it has not been possible to conform, in whole or in part, together with an explanation of the relevant circumstances, information about the organization's stage of conformance and its plans for full application of the requirements.***

2.23 Conformance with the requirements includes identification of those requirements with which it has not been possible to conform. A full explanation of the reasons for non-conformance should be provided. Failure or inability to conform to the requirements should be distinguished from the limitation or omission of information as a result of the proper application of the characteristics of decision-useful information in Chapter 3. The characteristic of understandability (paragraphs 2.28 & 3.20) makes it clear that relevant information should not be excluded from disclosures because it may be too complex or difficult for some users to understand without assistance. Where relevant information is incomplete or prepared under conditions of uncertainty, the definition of faithful representation is wide enough for the requirements to be satisfied provided that the nature and degree of omissions, errors and uncertainty is clearly explained in the statement of conformance (see paragraph 3.19).

Standards, policies and organizational boundary used for preparing information

2.24 ***The statement of conformance shall include details of the standards, policies and organizational boundary used for preparing information under the CCRF and confirmation that the standards, policies and organizational boundary have been used consistently from one reporting period to the next.***

2.25 Where Chapter 4 specifies the standard, policy or organizational boundary that must be used for the preparation of content under the CCRF, the statement required by paragraph 2.22 shall include a statement of conformance with those specifications. Where no standard, policy or organizational boundary is specified, or where regulatory requirements take precedence over and are used for conformance with the CCRF requirements, disclosures should clearly state the regulatory requirement(s) used for preparing information. Where any changes in standards, policies or organizational boundary have been made, the reason for and effect of the changes should be explained as part of the requirement to provide a comparative analysis in paragraph 2.39.

Requirements on presentation

2.26 ***Disclosures shall be presented and communicated so as to make them useful for investors.***

2.27 Information is useful where it is understandable and verifiable and where the basis for and effect of any assumptions used in making disclosures is explained.

2.28 Understandability[17] is the quality of information that enables users to comprehend its meaning. Understandability is enhanced when information is classified, characterized and presented clearly and concisely. Comparability (paragraph 2.14) can also enhance understandability. The actual comprehension or understanding of information depends largely on the users who may need to seek the aid of an adviser. Information that is relevant should not be excluded from financial reports solely because it may be too complex or difficult for some users to understand without assistance. The technical language of greenhouse gas emissions measurement, mitigation and climate change adaptation is a necessary characteristic of disclosures made under the CCRF. However, the use of technical terminology must be relevant to an understanding of the disclosures and explanations should be provided in plain language wherever possible.

2.29 Verifiability[18] is the characteristic of information that helps to assure users that it has been faithfully represented[19]. Verifiable information is characterized by supporting evidence that provides a clear and sufficient trail from monitored data to the information presented in disclosures. Verifiable information need not be a single point estimate. A range of possible amounts and related probabilities can also be verified. Verification may be direct or indirect. Generally, direct verification applies to a directly measured amount (e.g. greenhouse gas emissions results from continuous emissions measurement technology). Indirect verification checks the inputs and the resulting outputs by reference to the same methodology. Verifiability implies that different and independent observers could reach general consensus, although not necessarily complete agreement, that there is no material error or bias in the disclosures or that an appropriate recognition or measurement method has been applied without material error or bias. While climate change-related disclosure practices are developing and, given the likelihood that disclosures will be prepared under conditions of uncertainty, sufficient information must be provided in disclosures (including in the statement of conformance required by paragraph 2.22.) to enable users to understand the nature and degree of omissions, assumptions and uncertainty and therefore the extent to which direct or indirect verification is possible.

17 The CCRF's interpretation of understandability in the context of climate change-related disclosure is based on and uses actual or paraphrased text from the IASB's September 2010 Conceptual Framework for Financial Reporting, paragraphs QC30 – QC32.

18 The CCRF's interpretation of verifiability in the context of climate change-related disclosure is based on and uses actual or paraphrased text from the IASB's September 2010 Conceptual Framework for Financial Reporting, paragraphs QC26 – QC28.

19 Guidance on faithful representation is provided in Chapter 3, paragraphs 3.13. – 3.19.

Form of presentation

2.30 *Disclosures shall be clear and straightforward.*

2.31 The form of presentation of information will vary between organizations, reflecting the nature of their respective businesses, the strategies adopted by management and the regulatory environments in which they operate. However, in all cases, the following recommendations apply:

Encouraged	Discouraged
Analysis that gives insight into the disclosing organization's past performance and future prospects as used by management to manage the business.	Standard formulations that reiterate financial information without analysis.
Focus on the most important information through application of the CCRF requirements on determination.	Generic disclosures that do not relate to the specific practices and circumstances of the disclosing organization.
Disclosures that are consistent with associated financial statements.	Disclosures that duplicate those made in the financial statements without providing additional insight or understanding of strategies regarding items accounted for or disclosed in financial statements.

Position of information

2.32 *Information shall be reported in a place and in such a way as to explain the links between the organization's strategy, operations and climate change impacts.*

2.33 Except where regulatory requirements prescribe otherwise, disclosures should be made in or cross-referenced to/from the management commentary section of the mainstream financial report. Cross-referencing to information in other documents or locations should be used to avoid duplication, to keep the length of disclosures manageable and to provide contextual information. However disclosures that cross-refer to/from information in other documents should include sufficient contextual information and detail to satisfy the characteristic of understandability (paragraph 2.28.).

2.34 There are three principal options for presenting climate change information within management commentary:

- present a separate climate change section;
- present as a subheading within the risk section; and
- intersperse a discussion of climate change issues within various sections of the management commentary to reflect the linkages between climate change and other aspects of the company's business, such as corporate strategy, capital resources, liquidity, key performance drivers and outlook.[20]

2.35 Any of these approaches to presentation of information is acceptable. Where possible, good practice is to intersperse discussion of climate change-related issues within the relevant sections of the management commentary.

Performance measures and indicators

2.36 *Organizations shall disclose performance measures and indicators used by management to manage the business and to track progress against climate change-related targets.*

2.37 Information enhances the quality of decision-making when it communicates the link between climate change performance and financial performance using specific, quantified, absolute and normalized measurements that can be used to demonstrate and track progress/ efficiency. Performance measures are quantified measurements that reflect the critical success factors of an organization.

20 Building a Better MD&A: Climate Change Disclosures. A Canadian Performance Reporting Board Publication (2008) for the Canadian Institute of Chartered Accountants (CICA), p. 5.

Indicators can be narrative evidence describing how the business is managed or quantified measures that provide indirect evidence of performance[21].

2.38 Disclosures using performance measures and indicators are useful where:

- the performance measures and indicators are clearly described and are the same as those used by management to assess progress against its stated objectives;
- the goals and objectives towards which performance indicators are used to measure progress are clearly stated;
- they enable investors to understand how the measures/ indicators have been defined and calculated; and
- they enhance comparability and provide information for the identification of trends by being used consistently year on year, with the results for the previous period(s) being disclosed alongside results for the current reporting period. Any changes in the basis for, purpose, objectives and goals of performance measures and indicators shall be disclosed as part of the comparative analysis required in paragraph 2.39.

Comparative analysis

2.39 ***Disclosures shall explain changes in approach and changes in results from year to year.***

2.40 The comparative analysis and resulting explanations should cover:

- any significant variation in the organization's strategic analysis and governance between reporting periods;
- any changes in the basis, objectives and description of performance measures and indicators used to track performance or their definition or calculation;
- the extent to which forward-looking disclosures made in previous reporting periods have been borne out, including how and why the performance of the organization is short of, meets or exceeds previously made forward-looking disclosures[22]; and
- comparative results between reporting periods, for example, changes in greenhouse gas emissions results, organizational boundaries and other results and the main reasons for the change between reporting periods.

Segmentation

2.41 ***Disclosures shall be consistent with the associated financial statements of the organization. Therefore if financial statements include segment information, disclosures about climate change shall also reflect that segmentation.***

2.42 Segmentation of information assists investors in their understanding and decision-making. Specific guidance on segmentation of greenhouse gas emissions information is included in Chapter 4.

21 IFRS Practice Statement on Management Commentary, December 2010, paragraph 37.

22 IFRS Practice Statement on Management Commentary, December 2010, paragraph 19.

Summary of requirements

Summary of requirements under the CDSB Climate Change Reporting Framework

Determination		Preparation		Presentation	
An organization shall determine the disclosures to be made under the CCRF according to the categories of disclosure content that are of value to investors and a process that involves a thorough assessment of how climate change has actually affected or has the potential to affect the organization's strategic objectives. (2.3)		Disclosures shall be made on a consistent basis and shall include the information that is necessary to maximize its value to investors. (2.12)		Disclosures shall be presented and communicated so as to make them useful for investors. (2.26)	
All requirements shall be read in conjunction with Chapter 3 which describes the characteristics of decision-useful information that shall be applied in determining, preparing and presenting disclosures in accordance with the requirements and Chapter 4, which sets out requirements as to the type of information that is useful to investors.					
Content (2.5)	Disclosures shall take account of the content requirements in Chapter 4 of the CCRF.	Future prospects & past performance (2.16)	Disclosures under the CCRF shall enable investors to assess the future prospects of the organization as well as its past performance.	Form of presentation (2.30)	Disclosures shall be clear and straightforward.
Investor perspective (2.6)	Disclosures shall focus on investors as the primary users of information.	Reporting period (2.18)	Information shall be provided on an annual basis for the same period covered by the mainstream financial report, or for a period of twelve months ending in that period.	Position of information (2.32)	Information shall be reported in a place and in such a way as to explain the links between the organization's strategy, operations and climate change impacts.
Management perspective (2.8)	Disclosures shall bring to bear management's view of the organization's strategy and objectives.	Organizational boundary (2.20)	Subject to the CCRF recommendations about organizational boundaries for greenhouse gas emissions reporting (see Chapter 4), disclosures shall be made for the group of entities for which consolidated financial statements are prepared.	Performance measures and indicators (2.36)	Organizations shall disclose performance measures and indicators used by management to manage the business and to track progress against climate change-related targets.
Regulatory perspective (2.11)	Disclosures shall comply with regulatory requirements for financial reporting or corporate disclosure of climate change-related information. Where there is a conflict between the requirements of CCRF and the regulatory requirements, the regulatory requirements shall be applied and the nature and effect of the conflict disclosed.	Statement of conformance (2.22)	Disclosures shall include a statement of conformance with the CCRF requirements. In cases where full conformity has not been possible because of the organization's particular circumstances, the statement of conformance shall identify those requirements with which it has not been possible to conform, in whole or in part, together with an explanation of the relevant circumstances, information about the organization's stage of conformance and its plans for full application of the requirements.	Comparative analysis (2.39)	Disclosures shall explain changes in approach and changes in results from year to year.
		Standards, policies and organizational boundary used for preparing information (2.24)	The statement of conformance shall include details of the standards, policies and organizational boundary used for preparing information and confirmation that the standards, policies and organizational boundary have been used consistently from one reporting period to the next.	Segmentation (2.41)	Disclosures shall be consistent with the associated financial statements of the organization. Therefore if financial statements include segment information, disclosures about climate change shall also reflect that segmentation.

Chapter 3 – Characteristics of decision-useful information

Introduction

3.1 The degree to which climate change-related information is useful depends on the qualitative characteristics of the information. In order to be useful, climate change-related disclosures should possess the qualitative characteristics described in this chapter.

3.2 The characteristics of decision-useful information (the "Characteristics") described in this chapter shall be applied in determining, preparing and presenting disclosures in accordance with the requirements of the CCRF.

3.3 The Characteristics should be applied individually and in combination to help management conform to the requirements in such a way as to produce disclosures that are decision-useful to investors.

Sources that inform the characteristics

3.4 Many frameworks and standards specify characteristics or principles on which reporting outcomes should be based. The CCRF draws on the following sources:

- The qualitative characteristics of useful financial reporting information set out in the IASB's September 2010 Conceptual Framework for Financial Reporting (the Conceptual Framework)[23]. At the time of publishing edition 1.1 of the CCRF, the IASB has completed the first phase of its conceptual framework project and has published Chapter 1 "The objective of general purpose financial reporting" and Chapter 3 "Qualitative characteristics of useful financial information"[24]. Based on the experience of its Board members, CDSB has adapted the IASB's qualitative characteristics of useful financial information for application to climate change related disclosure;
- the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) developed by the World Resources Institute and World Business Council for Sustainable Development and associated regional program protocols; and
- the International Organization for Standardization's ISO 14064-1 – Specification with guidance at the organizational level for quantification and reporting of greenhouse gas emissions and removals.

3.5 In the interests of consistency with the IASB's September 2010 Conceptual Framework, the CCRF distinguishes between "fundamental" and "enhancing" characteristics that affect the usefulness of information in different ways. The CCRF also draws on the "constraining" characteristic of cost that limits the amount of information provided.

The fundamental characteristics[25]

3.6 Information must be relevant **and** faithfully represented in order to be useful. Relevance and faithful representation work **together** to contribute to decision-usefulness in different ways. Relevance helps preparers to identify the information that investors are most likely to find useful for decision-making. Faithful representation helps to determine how relevant information should be depicted and communicated in a way that most faithfully represents it.

Relevance[26]

3.7 Information is relevant if it is capable of making a difference to the decisions made by users. Information about climate change is capable of making a difference when it has predictive value, confirmatory value or both. Whether information about climate change is capable of making a difference is not dependent on whether the information has actually made a difference in the past or will definitely make a difference in the future. Information may be capable of making a difference in a decision, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

23 http://www.ifrs.org/IFRSs/Pages/IFRS.aspx

24 Project updates are available at tp://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Pages/Conceptual-Framework.aspx

25 The CCRF's interpretation of the fundamental characteristics is based on and uses actual or paraphrased text from the Conceptual Framework QC5 – QC18.

26 The CCRF's interpretation of relevance is based on and uses actual or paraphrased text from the Conceptual Framework QC6 – QC10.

3.8 Information about climate change has predictive value if it has value as an input to predictive processes used by investors to form their own expectations about the future. Information itself need not be predictable to have predictive value. Information need not be in the form of an explicit forecast to have predictive value; it needs only to be a useful input to predictive processes used by investors.

3.9 Information about climate change has confirmatory value if it confirms or changes past or present expectations based on previous evaluations. Information that confirms past expectations increases the likelihood that the outcomes or results will be as previously expected. If the information changes expectations, it also changes the perceived probabilities of the range of possible outcomes.

3.10 The predictive and confirmatory roles of information are interrelated; information that has predictive value usually also has a confirmatory value. For example, information about the company's current expectations regarding its ability to adapt to/manage/benefit from the effects of climate change and achieve its business strategy helps users to predict the organization's ability to take advantage of opportunities and react to adverse situations in future. The same information helps to confirm or correct users' past predictions about that ability.

3.11 Various factors indicate the relevance of climate change-related information to investors including:

- the prevalence of voluntary reporting;
- investor demand for information evidenced by statements from investor coalitions; and
- the rapid development of legislation requiring disclosure of the financial and operational impacts of environmental matters.

3.12 Application of the CCRF requirements ensures that disclosures include the categories of information that are useful to investors. Application of the characteristic of relevance helps management to focus on particular aspects of climate change-related content that affect or have the potential to affect the organization's operational or financial performance, cash flows, customers, brand and achievement of its strategy, goals and objectives.

Faithful representation[27]

3.13 Faithful representation is attained when the depiction of relevant information is complete, neutral and free from material error. Information about climate change may be represented in multiple ways, including qualitatively (e.g. a narrative description of the nature of possible effects) and quantitatively (e.g. greenhouse gas emissions).

3.14 Disclosure is complete if it includes all information that is necessary for an understanding of the matter that it purports to represent and does not leave out details that could cause information to be false or misleading to users.

3.15 Neutrality is the absence of bias intended to attain a predetermined result or to induce a particular behavior. Neutral information is free from bias so that it faithfully represents the matter that it purports to represent. Neutral information does not color the image it communicates to influence behavior in a particular direction. Climate change-related disclosures are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgment in order to achieve a predetermined result or outcome. However, to say that climate change-related disclosure should be neutral does not mean that it should be without purpose or that it should not influence behavior. On the contrary, relevant climate change-related disclosure is, by definition, capable of influencing users' decisions.

3.16 For the purposes of management commentary, information is free from bias, or "balanced" where it does not unnecessarily overemphasize good news but deals even-handedly with both good and bad aspects.[28]

3.17 Climate change-related disclosures are generally made under conditions of uncertainty and may be based on estimates and management's judgment. Therefore, in the context of climate change-related disclosure, faithful representation does not imply total freedom from error. However, faithful representation of information may be achieved by ensuring that sufficient information is provided about the nature and degree of omissions, assumptions and uncertainty and by basing estimates on appropriate and neutral inputs that reflect the best available information.

27 The CCRF's interpretation of the faithful representation is based on and uses actual or paraphrased text from the Conceptual Framework QC12 – QC16.

28 IFRS Practice Statement on Management Commentary December 2010, Basis for Conclusions paragraph BC43.

Therefore, in order to attain faithful representation, it may sometimes be necessary to disclose explicitly the degree of uncertainty in the reported information.

3.18 For the purposes of management commentary, information is regarded as free from error and as a faithful representation if it is 'supportable'. Information is supportable if it faithfully represents factually-based strategies, plans and risk analysis, for example. Details of measurement uncertainty represent important information. "Investors require sufficient information to assess the extent of the uncertainty surrounding the information to enable them to make a judgment regarding the extent to which they will rely on that information. [Management commentary] should include a cautionary note to ensure that uses are made aware of areas of uncertainty; this is likely to be particularly important for forward-looking information. It is also important for management to explain any material assumptions relating to forward looking information."[29]

3.19 While climate change-related disclosure practices and standards are developing, the CCRF recognizes that not all relevant information can be completely disclosed in such a way that is free from error. ***Where information is incomplete or has been prepared under conditions of uncertainty, the nature and degree of omissions, errors and uncertainty shall be clearly explained in the statement of conformance (paragraph 2.22) in qualitative or quantitative terms.***

The enhancing characteristics[30]

3.20 The enhancing characteristics are comparability, timeliness, understandability and verifiability. They enhance and complement the usefulness of information that is relevant and faithfully represented. The application of the enhancing characteristics does not follow a prescribed order. Sometimes one or more enhancing qualitative characteristic may be sacrificed to varying degrees to maximize another characteristic. For example, a temporary reduction in comparability may be worthwhile to improve relevance of faithful representation in the longer term. The enhancing characteristics are described within the CCRF requirements as follows:

- Comparability – paragraph 2.14 – 2.15
- Timeliness – paragraph 2.19
- Understandability – paragraph 2.28
- Verifiability 2.29

Materiality[31]

3.21 The IASB's September 2010 Conceptual Framework states that materiality is not a constraint on a reporting organization's ability to report information. Rather, materiality is an entity-specific aspect of relevance. As such, materiality will be different for each organization. However, paragraphs 3.22 to 3.30 below provide guidance that might be useful in helping each organization to determine the materiality of information for climate change-related disclosure purposes.

3.22 In financial reporting, information is material if its omission, misstatement or misinterpretation could influence the decisions that users make on the basis of an entity's financial information. Because materiality depends on the nature and amount of the item judged in the particular circumstances of its omission or misstatement, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material. When considering whether financial information is a faithful representation of what it purports to represent, it is important to take into account materiality because material omissions, misstatements or misinterpretations will result in information that is incomplete, biased or not free from error.

3.23 This section left deliberately blank.

3.24 For the purposes of CCRF, the characteristic of materiality aims to provide a *"workable filter on information, allowing investors to see major trends and significant events"*[32] related to climate change that affect or have the potential to affect the company's financial condition and/or its ability to achieve its strategy.

29 IASB Discussion Paper on Management Commentary, 2005, paragraphs 75 – 76. Note that December 2010 IFRS Practice Statement on Management Commentary is the most recent pronouncement, but text from the 2005 Discussion Paper is included here as useful guidance and does not conflict with the Practice Statement.

30 The CCRF's interpretation of the enhancing characteristics is based on and uses actual or paraphrased text from the Conceptual Framework QC19.

31 The CCRF's interpretation of the meaning of materiality is based on and uses actual or paraphrased text from a range of sources including the Conceptual Framework QC11.

32. Smith, J. A., Morreale, M. & Mariani, M.E., Climate change disclosure: Moving towards a brave new world, Capital Markets Law Journal, August 2008.

3.25 One purpose of materiality is to eliminate from disclosures "immaterial clutter[33]" and unnecessary or duplicative detail that obscures major trends and events. However, management's decision-making should not be constrained and the CCRF requirements and all relevant information sources should be taken into account in determining which information should be disclosed.

3.26 As paragraph QC QC11 of the Conceptual Framework states, it is impossible to specify a uniform quantitative threshold at which information becomes material. Similarly, the CCRF does not prescribe a quantitative test or standard to identify what is material in the context of climate change-related disclosure. This is partly because determining whether information is material is a dynamic process that depends on the prevailing relevant conditions at the time of reporting and also because *"there is no consensus amongst institutional investors about the timing or extent of climate change impacts."*[34] In the case of climate change, the prevailing conditions might relate to developments in the reporting company's sector, the country or countries in which it operates, the price of energy, scientific findings, actual or impending regulation and consumer behavior.

3.27 The technical summary of International Accounting Standard 1 (IAS 1)[35] distinguishes between the size and nature of materiality as follows:

"Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor….".

- Materiality by size covers information such as absolute and normalized measurements of greenhouse gas emissions.
- Materiality by nature covers information such as an organization's strategy for dealing with the possibility of climate change-related events, risks and contingent liabilities thereof.

The technical summary explains that the materiality of a particular matter should be assessed both individually and in aggregate.

3.28 In cases where a legislator or policy maker has issued guidance on the determination of materiality in non-financial reporting[36] or management commentary, such guidance takes precedence over the CCRF although the CCRF aims to be compatible with all such issued guidance that addresses materiality.

33 Rising to the Challenge – A review of narrative reporting by UK listed companies. Accounting Standards Board http://www.frc.org.uk/images/uploaded/documents/Rising%20to%20the%20challenge%20October%202009.pdf

34 CDP Global 500 Report 2008:86.

35 By the International Accounting Standards Committee in 2008/2009. This has been replaced by a Technical Summary as at 1 January 2012, but information from the previous Technical Summary has been retained here as it is likely to be helpful for determining materiality for climate change-related disclosure purposes.

36 For example, Securities and Exchange Commission Guidance Regarding Disclosure Related to Climate Change [Release Nos. 33-9106; 34-61469; FR-82], hereinafter referred to as "SEC interpretive guidance" and available at www.sec.gov/rules/interp/2010/33-9106.pdf

3.29 In the absence of tests or standards to determine materiality, companies must evaluate their own circumstances and make disclosure decisions based on the requirements of the CCRF. The following table is designed to assist management in its decision-making.

Factors indicating that information is material	Factors indicating that information is not material
Information would influence a reasonable investor in deciding whether to invest or to continue to invest in the organization.	
Information that, whilst not currently affecting the organization or its strategy, is expected to have an impact over time, particularly where the disclosing organization is in an industry with longer operating or investment cycles or where new technologies might be required.	Management determines that the known trend, demand, commitment, event or uncertainty is not reasonably likely to occur[37].
Information that promotes understanding of the disclosing organization's financial condition, liquidity, changes in financial condition and results of operation[38].	A material effect on the financial condition or results of operations is unlikely.

3.30 Where management is unable to assess the effect of the amount and timing of uncertain events and provide an indication of the time periods in which resolution of the uncertainties is expected, management should disclose the difficulties involved in assessing the situation.[39] When in doubt, management should err on the side of caution and provide a suitable disclosure about any uncertainty.

Cost[40]

3.31 Financial reporting imposes costs and the benefits of reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs will usually be more qualitative than quantitative. In addition, the qualitative assessment of benefits and costs will often be incomplete.

3.32 The costs of providing information include costs of collecting and processing the information, costs of verifying it and costs of disseminating it. Users incur the additional costs of analysis and interpretation. Omission of decision-useful information also imposes costs, including the costs that users incur to obtain or attempt to estimate needed information using incomplete data in the financial report or data available elsewhere.

3.33 Financial reporting helps capital providers make better decisions, which results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. Individual entities also enjoy benefits, including improved access to capital markets, favorable effect on public relations and perhaps lower costs of capital. The benefits may also include better management decisions because financial information used internally is often based at least partly on information prepared for general-purpose financial reporting.

3.34 Application of the cost constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use that information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.

3.35 Information that is relevant and capable of faithful representation is, by definition, of benefit to investors and cannot therefore be constrained based on cost alone. Where access to information is limited and/or its collection would give rise to disproportionate cost, the organization should explain in the statement of conformance required by paragraph 2.22 why it is unable to provide all relevant information. Organizations may be able to provide estimated or qualitative information that is consistent with the CCRF requirements without disproportionate cost. Where this is the case, the resulting disclosures must satisfy the Characteristics, particularly the characteristic of "faithful representation".

37 From the SEC interpretive guidance

38 ibid

39 ibid

40 The CCRF adopts the meaning of cost set out in IASB's Conceptual Framework paragraphs QC35 – QC39 and uses or adapts actual or paraphrased text from those paragraphs.

Chapter 4 – Requirements for disclosure content

Introduction

4.1 The focus and content of climate change-related disclosures made under the CCRF will depend on the interaction between the application of judgment by management on how to conform to the requirements, the application of the characteristics of decision-useful information and the facts and circumstances of the organization. The CCRF requirements seek to ensure that disclosures include information that is essential to an understanding of how climate change affects management's objectives, the strategies for meeting those objectives and the performance of the organization. The content requirements set out in this chapter represent the main types of climate change-related information considered to be of value to investors and the categories of information that must be provided to meet the needs of investors and enable a minimum level of comparability between organizations. The content requirements are therefore related and integral to the requirements in chapter 2 and ***determination of disclosures shall take account of the content requirements in this chapter.***

Influences

4.2 This chapter draws on the types of information typically reflected in regulatory requirements and leading climate change disclosure initiatives including:

- the Carbon Disclosure Project's annual information request;
- the World Resources Institute through their development of the Greenhouse Gas Protocol and associated national and regional programs;
- the International Organization for Standardization's guidance on the quantification and reporting of greenhouse gas emissions and removals, ISO 14064-1;
- CERES' October 2006 Global Framework for Climate Risk Disclosure;
- the Global Reporting Initiative's G3 Guidelines;
- the US SEC's 2010 interpretive guidance on disclosure of climate risk[41].

Disclosure content requirements – Summary

4.3 *Disclosures shall include the following information:*

- ***Strategic analysis, risk and governance*** (see paragraphs 4.4 – 4.17 below) – Management's view of the extent to which the organization's strategy and operational performance are affected by climate change-related risks and opportunities and the governance processes for addressing those effects provides vital information for investors and decision-makers in assessing the condition of the organization; and
- ***Greenhouse gas (GHG) emissions*** (see paragraphs 4.18 – 4.33 below) – Investors have expressed a particular need for high quality quantitative data on GHG emissions that may be used for benchmarking and analyzing risks associated with future regulation to restrict or minimize GHG emissions.

Strategic analysis, risk and governance

4.4 For the purposes of the CCRF, strategic analysis covers both:

- the impact of climate change on the organization's long-term and short-term strategic objectives; and
- the organization's long term and short term strategies, including GHG mitigation and adaptation to physical risks, to address climate change.

4.5 Disclosure content about strategic analysis, risk and governance falls into six main categories described below. Information may be provided in combination, rather than separately, where this would avoid repetition.

1. Strategic analysis

4.6 *Disclosure about strategic analysis shall include a statement about the long-term and short-term impact climate change actually and potentially has on the organization's strategic objectives.* This may include:

- whether or not management perceives that the implications of climate change already, or will in future, impact the organization's business strategy;
- a description of the way in which management has applied the requirements on determination (paragraphs 2.3 – 2.11) to identify climate change-related issues that are of most relevance for the organization and are most useful for investors;

41 http://www.sec.gov/rules/interp/2010/33-9106.pdf

- an analysis of the implications of climate change for competitiveness, access to resources, financial performance and financial condition;

- the strategic implications of climate change for resources and innovation, such as the development of new technologies, brand value and reputation, consumer confidence and employee loyalty; and

- any significant change in the organization's position on climate change since the last report and an explanation of the reason for the change.

4.7 Disclosures should include details of the current and future financial implications associated with climate change strategies, risks and greenhouse gas emissions, including those affecting capital and operating expenses, liquidity, commitments, liabilities or revenues. Where it is not possible to quantify financial impacts, estimates, together with qualitative information, may be provided in the form of ranges based on stated assumptions or scenarios.

4.8 Disclosure is useful when it connects the information that management uses internally for decision-making purposes about the company's strategy, goals and objectives with what is provided externally to investors for their decision-making.[42] Information is useful when it tells investors *"the story of how managing [climate change-related issues] helps the company to increase sales, lower costs, smooth cash flow, boost brand value and strengthen risk management,"*[43] and when it shows the *"linkages between corporate climate change strategies, financial performance, and GHG emission reductions."*[44]

2. Risks

4.9 ***Disclosure about risks shall include an explanation and qualitative assessment of the organization's exposure to current and anticipated (long-term and short-term) significant risks associated with climate change.***

3. Opportunities

4.10 ***Disclosure about opportunities shall include an explanation and qualitative assessment of current and anticipated (long-term and short-term) significant opportunities associated with climate change.***

Decision-useful information on risks and opportunities

4.11 Detail that makes disclosures about risks and opportunities decision-useful includes:

- a description or cross reference to other parts of the mainstream financial report that describe the organization's processes and systems for identifying risks and opportunities and for assessing the degree to which they could affect the business, including the financial implications;

- an explanation of how and the extent to which the organization is able to influence the effect of risks and opportunities directly and/or indirectly through customers, supply chain, markets etc;

- information about and estimates of the financial implications of risks and opportunities on the organization's business including its value chain;

- timeframes over which risks and opportunities are assessed and estimates of when they are expected to materialize;

Risks and opportunities

Climate change-related risks and opportunities are potentially wide-ranging, direct or indirect (e.g. affecting markets and supply chain) and can include:

- *Regulatory risks and opportunities from current and/or expected regulatory requirements including known or expected effects of:*
  - *GHG emissions limits*
  - *Energy efficiency standards*
  - *Carbon taxation*
  - *Process or product standards*
  - *Participation in GHG trading schemes*
- *Risks and opportunities from the physical effects of climate change including known or expected effects of:*
  - *Changing weather patterns*
  - *Sea level rise*
  - *Shifts in species distribution*
  - *Changes in water availability*
  - *Changes in temperature*
  - *Variation in agricultural yield and growing seasons*
- *Reputational risks and opportunities*
- *Litigation risks and opportunities*

42 American Institute of Certified Public Accountants, Inc (AICPA) (2008) "Assurance Services Executive Committee Whitepaper "The Shifting Paradigm in Business Reporting and Assurance" by Amy Pawlicki, Director of Business Reporting, Assurance & Advisory Services and MBRL, AICPA. On behalf of the AICPA Assurance Services Executive Committee.

43 Ethical Corporation February 2009 "Tell a Strategic Story" J Russell

44 Kolk, A., Levy, D. and Pinkse, J., Corporate Responses in an Emerging Climate Regime: The Institutionalization and Commensuration of Carbon Disclosure – European Accounting Review, 17:4,719 – 745, 2008

- identification of the products, services, markets and geographical areas that are likely to be affected.

4. Management actions

4.12 ***Disclosure shall include a description of the organization's long-term and short-term strategy or plan to address climate change-related risks, opportunities and impacts, including targets to reduce GHG emissions and an analysis of performance against those targets.***

4.13 Detail that makes information about management's actions decision-useful:

- describes the **nature of the plans** (e.g.: whether they involve GHG emissions reductions, energy efficiency and/or diversification, managing reliance on fossil fuels and so on);
- explains **the GHG reduction target** (where one is set) including:
  - the type of target, whether absolute or intensity-based;
  - the timescales over which the company aims to achieve the target;
  - the target base year and GHG emissions for the organizational boundary and targeted GHG emissions sources or activities for that year. The base year is the first or starting year against which emissions are evaluated towards the achievement of the target;
  - an explanation of the circumstances in which the target base year emissions have been or may be re-calculated retrospectively or where the target base year has been reset;
- explains other **goals and timescales** that have been set under the plans and the key performance indicators against which those goals will be evaluated;
- specifies the **organizational boundary** and the GHG emissions activities and/or sources to which the plans apply;
- describes the **activities and investments required to achieve the plans** and any risks or limiting factors that might affect achievement of the plans and/or targets; and
- **analyzes progress** to date against previously set plans or targets.
- **analyzes progress** against regional, national, international or sectoral targets.

5. Future outlook

4.14 ***Disclosures shall include information about the future outlook, long-term and short-term, including trends and factors related to climate change that are likely to affect management's view of the organization's strategy or the timescales over which achievement of the strategy is typically planned.***

4.15 Information about the future outlook is decision-useful where:

- it is based on reasonable assumptions and any uncertainties or key dependencies that might affect it are disclosed;
- there is a direct link between the future outlook related to climate change and the organization's assessment of its longer term objectives and strategies;
- it describes, or cross refers to parts of the mainstream financial report that describe, long-term strategic developments that may enhance opportunities or increase risk, such as organic growth or decline, acquisitions or divestments and operational changes;
- it includes estimates of investment in or the cost of GHG abatement or climate change adaptation that could materially affect the growth, future earnings and/or direction of the organization;
- it includes an estimate (together with the methodology/rationale used for the estimate) of future movements in direct and indirect GHG emissions, taking account of expected GHG emissions/energy efficiency and reduction plans; and
- it estimates any cost savings associated with GHG abatement/ energy efficiency expectations.

6. Governance

4.16 ***Disclosures shall describe the governance processes and organizational resources that have been assigned to the identification, management and governing body oversight of climate change-related issues.***

4.17 Detail that makes information about governance decision-useful includes:

- a description of how responsibility for climate change is delegated and how executives are held accountable for and/or rewarded for implementation of the organization's climate change strategy;
- the nature and reliability of the underlying information and control systems used in tracking GHG emission information and providing climate change-related disclosures;
- whether the organization's climate change information is subject to the same governance processes and disclosure controls and procedures as are used for other financial reporting information.

Greenhouse gas emissions

Introduction

4.18 Investors have expressed a particular need for high quality quantitative data on GHG emissions that may be used for benchmarking and analyzing risks, including those associated with future regulation to restrict or minimize GHG emissions. Accordingly, many organizations already measure and/or disclose their GHG emissions for purposes other than mainstream financial reporting. For example, GHG emissions may be reported to the Carbon Disclosure Project, The Climate Registry or in accordance with regulatory requirements. The CCRF aims to ensure, as far as possible, that GHG emissions measured and/or disclosed for purposes other than mainstream financial reporting may be used, wholly or partially, to satisfy requirements for the provision of GHG emissions information under the CCRF.

GHG Emissions content requirements – Summary

4.19 The CCRF sets out two main requirements for the provision of information about GHG emissions. The main requirements are summarized in this paragraph by way of introduction and are elaborated below with more specific requirements, guidance and explanatory material.

4.19.1 ***Gross absolute and normalized GHG emissions shall be disclosed for the organization; and***

4.19.2 ***Movements in GHG emissions results over time shall be disclosed, together with a description of activities that have given rise to movements and/or reasons for the movements.***

Recognized GHG emissions reporting schemes

4.20 In accordance with its aim to align requirements with existing standards, practices and regulatory requirements, the CCRF does not specify rules for the calculation of GHG emissions. Rather, the CCRF relies on GHG emissions calculation rules specified in "recognized GHG emissions reporting schemes", all of which share certain fundamental characteristics. For the purposes of the CCRF, recognized GHG emissions reporting schemes include:

Global standards

Global standards are developed through public consultation and due process and have been widely adopted globally. They include industry or national standards that are based on and adopt relevant principles from such global standards.

For the purposes of the CCRF, global standards include:

The Greenhouse Gas Protocol: A corporate accounting and reporting standard (Revised Edition) ("the GHG Protocol") developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) – available at www.ghgprotocol.org

The International Organization for Standardization's ISO 14064-1 "Specification with guidance at the organizational level for quantification and reporting of Greenhouse Gas Emissions & Removals – available at www.iso.org

National and regional programs based on the GHG Protocol including the:

- GHG Mexico Program;
- The Philippine GHG Accounting & Reporting Program (PhilGARP);
- China Corporate Energy Conservation and GHG Management Program;
- Brazil GHG Protocol Program;
- The Climate Registry's Voluntary Reporting Program[45];
- India GHG Inventory Program.

Industry specific guidelines based on the GHG Protocol including:

- IPIECA's Petroleum Industry Guidelines for reporting GHG emissions (2003);
- The Aluminum Sector GHG Protocol;
- The Cement CO2 Protocol: CO2 Accounting and Reporting Standard for the Cement Industry.

45 www.theclimateregistry.org

National legislation requiring GHG measurement and reporting

Including monitoring and reporting guidelines accompanying mandatory trading schemes such as:

- European Union Emissions Trading Scheme – European Union Decision 2007/589/EC of 18 July 2007;
- Regional Greenhouse Gas Initiative (RGGI);
- New Zealand Emissions Trading Scheme.
- Mandatory reporting rules such as:
  - US EPA Mandatory Reporting Rules;
  - Australian National Greenhouse and Energy Reporting rules;
  - Japanese GHG Monitoring and Reporting rules; and
  - UK Carbon Reduction Commitment Energy Efficiency Scheme.[46]

National government sponsored guidance on GHG measurement and reporting

Including:

UK DEFRA/DECC guidelines – "Guidance on how to measure and report your greenhouse gas emissions".

Categorization of GHG emissions

4.21 For the purposes of categorizing GHG emissions, the CCRF adopts language from and the approach used in the GHG Protocol. This part of the CCRF should therefore be read in conjunction with the GHG Protocol. In particular, the CCRF uses the GHG Protocol's categorization of GHG emissions by "scope" in order to distinguish between direct "Scope 1" emissions, indirect emissions from the generation of purchased electricity consumed by the organization, categorized as "Scope 2" emissions, and other indirect emissions, "Scope 3". The GHG Protocol's categorization of GHG emissions in this way ensures, as far as possible, that double counting by organizations is minimized, or where unavoidable, is identifiable.

4.22 The GHG Protocol provides that companies reporting in conformance with it shall report all Scope 1 and 2 GHG emissions. However, reporting of Scope 3 emissions is optional.[47] In the interests of consistency with the GHG Protocol and the organizational boundary setting recommendations set out below, the CCRF's disclosure content requirements relate only to Scope 1 and 2 GHG emissions except in the case of GHG emissions from the reporting company's interest in associates, which are treated as Scope 3 emissions but should be included in Part 2 GHG emissions as described in paragraph 4.26 below. Paragraph 4.27 sets out the definition of and circumstances in which disclosure of Scope 3 GHG emissions should be considered.

Organizational boundary setting for GHG emissions reporting

4.23 Whereas it relies on recognized GHG emissions reporting schemes for the calculation of GHG emissions, the CCRF's approach to organizational boundary setting aligns to boundaries used for financial reporting purposes so that GHG emissions are reported for the same entities as those for which financial statements are produced. The CCRF seeks to limit and define the approach that a group of companies takes to setting organizational boundaries for GHG emissions reporting purposes in order to support benchmarking, encourage consistency and enhance transparency. Whereas regulatory requirements specify the facilities or entities for which emissions results should be prepared and the GHG Protocol relies on the management of a parent company to decide whether to apply the financial control, operational control or equity share approach to consolidation of a group's GHG emissions results, the CCRF prescribes a single approach. This is based on the requirements of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) on consolidation[48] and equity accounting and is consistent with how information relating to entities within a group or interests in joint ventures/associates would be included in consolidated financial statements.

46 http://www.decc.gov.uk/en/content/cms/ what_we_do/lc_uk/crc/crc.aspx

47 The World Resources Institute and World Business Council for Sustainable Development have issued the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. A company may choose to report conformance with the GHG Protocol Corporate Standard, in which case Scope 3 emissions is optional, or in conformance with both the GHG Protocol Corporate Standard and the Scope 3 Accounting and Reporting Standard, in which case Scope 3 emissions must be reported according to the requirements and guidance in the standard.

48 IAS 27, IAS 28 and IAS 31 or the revised IFRS standards on consolidation, IFRSs 10, 11 and 12, effective for periods beginning on or after 1 January 2013.

4.24 The CCRF's recommendation is that GHG emissions should be reported in two parts, first for the following entities:

Part 1 GHG emissions (Scope 1 and Scope 2)

Total	Entities	GHG emissions Scope 1 and Scope 2 GHG emissions are to be reported separately
Line 1	Parent company and subsidiaries under financial control including leased assets treated as assets of the consolidated group for financial accounting purposes[49].	100% of emissions
Line 2	Joint ventures	X % of emissions according to the % interest in the joint venture

4.25 The approach outlined above (entitled "part 1 GHG emissions") takes account of the fact that the provision of GHG emissions information relating to indirect upstream impacts including transportation costs and energy use and indirect downstream impacts from products after sale would be inconsistent with other information in annual financial statements[50]. However, the CCRF also recognizes that confining GHG emissions disclosures to those from sources and activities within the boundary defined for financial reporting purposes omits GHG emissions information that might be of interest to investors. Therefore, in addition to, but separately from part 1 GHG emissions as set out above, the CCRF also recommends disclosure of "part 2 GHG emissions" as defined below, in order to distinguish them from GHG emissions from sources and activities within the organizational boundary used for financial reporting.

Part 2 GHG emissions

4.26 Part 2 GHG emissions should include emissions from investments in associates so that emissions can be reconciled to the sources and activities within the boundary defined for financial reporting purposes; and any Scope 1 and Scope 2 emissions from operationally controlled and/or other entities/activities/facilities that:

a. are not consolidated in Part 1; and

b. must be reported under regulatory requirements by the disclosing organization in its capacity as operating licensee or in any other capacity (e.g.: tenant); or

c. due to the nature of the contract for the operation or use of the entity/activity/facility:

   i. expose the reporting organization to risk, opportunity or financial impacts; or

   ii. enable the reporting organization to influence the extent to which GHGs are emitted.

Other indirect GHG emissions (Scope 3)

4.27 For the purposes of the CCRF, the definition of other indirect, or Scope 3, emissions is based on the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard[51] and this part of the CCRF should be read in conjunction with that document. Except as specified in paragraph 4.22 above, the CCRF does not require disclosure of indirect Scope 3 GHG emissions. However, where Scope 3 emissions expose the reporting organization to risks, opportunity or financial impacts, the effect should be disclosed under the Strategic Analysis, Risk and Governance content requirements above.

49 Assets held under finance leases are treated as assets of the lessee under IAS 17 – Leases.

50 Turning questions into answers: Environmental issues and annual financial reporting – ICAEW and Environment Agency Report – September 2009: page 18.

51 Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Detailed GHG emissions content requirements

4.28 This section elaborates on the GHG emissions content requirements summarized in paragraph 4.19 and provides associated guidance.

4.29 ***Gross absolute Part 1 and Part 2 GHG emissions shall be calculated by reference to one or more recognized GHG emissions reporting schemes and disclosed in CO2 equivalent metric tones.***

"Gross absolute GHG emissions" are the GHG emissions actually emitted to the atmosphere before any GHG reduction activities, offsets or other adjustments for activities in the reporting period that have reduced or compensated for GHGs emitted to the atmosphere.

An organization operating in multiple jurisdictions might be required or opt to calculate GHG emissions results under one or more recognized GHG emissions reporting schemes. Such results may be used for the purposes of disclosure under the CCRF.

4.30 Normalized GHG emissions shall be disclosed for the organization

Whereas absolute GHG emissions refers to the actual amount of GHGs produced, normalized GHG emissions or "emissions intensity" means the ratio of GHGs produced to a financial measure or a measure of activity.

The CCRF recommends disclosure of normalized GHG emissions/ emissions intensity as follows:

- a measure of direct (Scope 1) GHG intensity by reference to the company's revenue[52];
- a measure of direct (Scope 1) GHG intensity by reference to non-financial output[53];
- a measure of indirect (Scope 2) GHG intensity by reference to the company's revenue;
- a measure of indirect (Scope 2) GHG intensity by reference to non-financial output.

4.31 ***GHG emissions results shall be accompanied by contextual disclosures that include:***

a. ***the name or names of the recognized GHG emissions reporting scheme(s) used to calculate GHG emissions;***

b. ***the quantification methodology used for calculating GHG emissions.***

   For example, whether results are:

   i. Calculation/estimation based (e.g.: emission factors applied to activity data, models or material/mass balance);

   ii. Taken from continuous or intermittent direct measurements, or

   iii. Based on a combination of measurement and calculation/ estimation methods.

c. ***key assumptions made in the preparation of disclosures;***

d. ***emission factors and/or the source of emission factors used to calculate GHG emissions from activity data;***

e. ***the global warming potentials used and their source;***

f. ***in support of Scope 2 (indirect) GHG emissions results, disclose details (in KWh, MWh or GWh) of the purchased electricity the organization has consumed;***

g. ***a description of the main effects of uncertainty in the calculation of GHG emissions e.g.: data gaps, assumptions, extrapolations, metering/ measurement inaccuracies etc;***

h. ***a statement on whether and to what extent GHG emissions results have been verified or assured in house or by an independent third party;***

i. ***confirmation or otherwise that Scope 1 and 2 GHG emissions results relate to activities and sources within the organizational boundaries described in paragraphs 4.23 – 4.26.***

$$\text{Normalized GHG emissions} = \frac{\text{Absolute GHG emissions (per 4.29 above)}}{\text{output (physical or economic)}}$$

52 "Revenue" means the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of a company (such as sales of goods, sales of services, interest, royalties and dividends). This definition is based on International Accounting Standard (IAS) 18. Revenue might be described in some jurisdictions as "turnover" or "sales".

53 Non-financial output includes tones or unit of production (e.g.: GHG emissions per square centimeter of semiconductor wafer produced), or in service sector, the number of jobs completed.

4.32 ***GHG emissions results shall be categorized/disaggregated as appropriate in the circumstances.***

Where it is likely to aid understanding, GHG emissions results should be broken down by:

a. GHG categorization – i.e.: Scope 1 and Scope 2;

b. The main countries or regions in which the organization operates;

c. Business units or divisions;

d. Source types (e.g.: stationary combustion, process emissions, fugitive emissions);

e. Activity types (e.g.: production of electricity, transportation, generation of purchased electricity sold to end users);

f. Each of the six “Kyoto” GHGs (CO2, CH4, N20, HFCs, PFCs and SF6).

The CCRF does not require reporting at facility level because the focus of interest is the aggregate financial position of the company with respect to climate change.

4.33 ***Movements in GHG emissions results over time shall be disclosed and explained***.

The reasons for variations in GHG emissions between reporting periods include but are not limited to:

- organic growth or decline;
- divestments and acquisitions;
- major energy efficiency or process improvements; and
- alterations to processes for collecting data and calculating emissions.

Appendix 1 – Basis for conclusions

1. CDSB's draft Reporting Framework was released for public consultation in May 2009 and the consultation phase ended on 31 October 2009. CDSB has developed the first edition of its Climate Change Reporting Framework (CCRF) based on:

    a. responses to the public consultation;

    b. principles of financial reporting;

    c. voluntary reporting initiatives and standards on climate change;

    d. regulatory developments on climate change-related disclosure; and

    e. research by CDSB and others.

2. The CCRF has been developed by CDSB's Technical Working Group (TWG) in consultation with CDSB's Board and Advisory Committee[i]. This basis for conclusions explains decisions made by CDSB's TWG in developing the CCRF.

The origins of CDSB's work

3. Climate change is increasingly recognized as a financial and strategic business risk affecting corporate value as well as posing physical and social risk. CDSB originally undertook the development of the CCRF in order to promote the disclosure of climate change impacts, as crucial factors in the formulation and assessment of business strategy, in mainstream financial reports[ii].

4. CDSB's development of the CCRF is also a response to the demand from preparers and users of information for greater standardization of climate change-related disclosures. The variety of state, national, regional and international voluntary and mandatory schemes designed to reduce greenhouse gas emissions and address climate change is perceived as a "constantly evolving labyrinth[iii]" of rules that gives the market "an imperfect and incomplete picture both in what is said and in the rules dictating what should be said[iv]". CDSB undertook its work because the absence of a single standard for climate change-related disclosure:

    a. is inconsistent with the global and shared nature of climate change;

    b. produces variation in the quality, quantity and relevance of disclosures;

    c. prevents the effective use of information by markets and stakeholders; and

    d. discourages disclosure because preparers are uncertain about what they should report and how to comply with user needs.

5. Some jurisdictions have already introduced legislation requiring disclosure of certain climate change-related information in mainstream financial reports. However, there are complex matters to be addressed before disclosures can be made effective. CDSB's research[v] and analyses of compliance with existing law reveal a number of issues[vi] that affect the quality and quantity of disclosures. Policy makers and others are considering ways in which guidance and standards may be used to improve the quality of climate change-related information and CDSB's work is designed to contribute to those regulatory deliberations.

Harmonization not duplication

6. In response to the demand for information, companies are already making climate change-related disclosures to regulators, in their annual corporate reporting[vii], to the Carbon Disclosure Project and through other channels. Standards for preparing certain types of climate change-related information already exist, for example, the Greenhouse Gas Protocol and ISO's specification for the quantification and reporting of greenhouse gas emissions and removals. Although they have developed against different policy backgrounds and there are actual and perceived differences between them, the various mandatory and voluntary schemes and standards involving climate change-related disclosure that have emerged around the world also share some fundamental characteristics and widely applied practices. CDSB's approach to developing its draft Reporting Framework is to consolidate and complement, but not to duplicate those shared characteristics and practices and to draw on the influences listed in paragraph 1.9 of the CCRF in order to promote standardization of disclosures about climate

change in mainstream financial reports[viii]. CDSB's May 2009 public consultation elicited unanimous support for this approach and for the development of a single global unified framework for climate change-related disclosure.

7. As well as voluntary initiatives for reporting climate change-related information, regulatory requirements to disclose some or all of the information covered in Chapter 4 of the CCRF are already in place in certain jurisdictions[ix]. In order to minimize reporting burdens and duplication of effort, CDSB has developed the CCRF to be consistent, as far as possible, with common features of established voluntary initiatives **and** regulatory requirements. However, in the event of a conflict between the CCRF and regulatory requirements, the methodology, reporting period and boundary prescribed by the latter takes priority over the requirements of the CCRF. The TWG acknowledges certain practical difficulties with this approach, including the fact that the organizational boundaries and reporting periods set by regulators may differ from those specified by the CCRF.

   Inevitably the practical application of the CCRF in such cases will need to be tested and refined over time.

Principles-based accounting versus requirements

8. Responses to the public consultation expressed support for principles-based accounting and the TWG noted that this approach is in line with the development of standards by the International Accounting Standards Board[x].

   However, the need for comparability and consistency was also recognized as being crucial to the achievement of CDSB's objectives. The TWG unanimously agreed that the balance between principles and the prescription needed for comparability and consistency would be found by specifying requirements on the determination, preparation and presentation of disclosures that must be satisfied by those companies that claim conformance with the CCRF. Together, the requirements, guidance, explanatory material, existing regulatory requirements and the characteristics of decision-useful information provide both prescription and flexibility by setting parameters within which management may exercise judgment as to how to conform to the requirements of the CCRF.

Relationship with the International Accounting Standards Board and work on other non-financial disclosures

9. Respondents to the public consultation called for an organization, preferably the International Accounting Standards Board (IASB), or a consortium of bodies leading work on non-financial disclosures, to develop further and implement CDSB's work in conjunction with the development of standards on other areas of sustainability (e.g.: water and waste) for the provision of information to investors **and** other user groups.

10. The TWG decided that the CDSB's work should remain focused on climate change and that the main user group for information should remain investors as explained in Chapter 4 of the Basis for Conclusions document issued in May 2009. However, as noted in the CCRF, CDSB anticipates that information useful to investors may also be useful to other users of financial reporting.

11. CDSB works closely with international organizations[xi] that promote integration of non-financial information affecting the performance and condition of companies into mainstream financial reports and the harmonization of approaches to corporate reporting of non-financial data. Through CDSB's alliance[xii] with The Prince of Wales' Accounting for Sustainability Project and the International Integrated Reporting Committee, the expectation is that relevant principles from the CDSB Framework will be adopted by and reflected in wider sustainability reporting frameworks over time. Although CDSB has not conducted any formal work with the IASB, through its participation in the work of the International Integrated Reporting Committee and informal discussions with the IASB about their Management Commentary project, CDSB will work to ensure that the development of the CCRF is consistent with relevant features of the IASB's work.

Continuous improvement

12. As noted in the preface to the CCRF, edition 1.0 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 will build upon and update the CCRF over time in the light of experience of working with it and in response to developments in climate change disclosure practice. Matters on which CDSB is continuing to work are described in CDSB's Work Plan available at www.cdsb-global.org.

Format

13. The TWG decided that the CCRF should be published both as a stand-alone document and, in due course, as web pages so as to enable efficient navigation and linking to definitions, standards and research.

14. Following comments made in response to the May 2009 public consultation, the TWG focused on streamlining the CCRF to avoid duplication and unnecessary detail.

    Sections from the nine chapter May 2009 Exposure Draft have therefore been consolidated and re-ordered where appropriate with the result that CCRF 1.0 comprises just four chapters as follows:

    1. Introduction
    2. Requirements
    3. Characteristics of decision-useful information
    4. Requirements for disclosure content

Implementation guidance

15. The TWG decided that examples and illustrative disclosures should be published in a separate Disclosure Implementation Guide based on existing public disclosures, reflecting how corporations have dealt, in whole or in part, with information covered by the CCRF requirements. The Disclosure Implementation Guide will be published after the release of edition 1.0 of the CCRF.

Assurance

16. The TWG decided that one of the CCRF's intended outcomes should be to elicit disclosures based on criteria that are suitable for conducting assurance activities. Although there is currently no requirement for climate change-related disclosures made under the CCRF to be audited or assured (except and to the extent that International Standards on Auditing (ISA 720) require the auditor of financial statements to read information accompanying them to identify material inconsistencies between the audited financial statements and accompanying information), CDSB is aware of the demand from preparers and users for climate change-related disclosures to be assured. CDSB is following the development by the International Auditing and Assurance Standards Board of a standard for assurance of greenhouse gas statements[xiii]. Meanwhile, the CCRF has been drafted, as far as possible, to include criteria and requirements that are suitable for conducting assurance activities.

Relationship between the CCRF and voluntary reporting

17. Although the CCRF is intended for the determination, preparation and presentation of disclosures made in mainstream financial reports, the TWG noted that in the absence of regulation requiring such disclosures and based on current practices, disclosures anticipated by the CCRF might be made in voluntary rather than mainstream reports. TWG members noted that in certain jurisdictions, companies issue reports that include financial statements and information required by regulators as well as voluntary information. The purpose is to report comprehensive corporate information to investors beyond the confines of regulatory requirements. The TWG decided that companies should not be prevented from using the CCRF for climate change-related disclosures in voluntary reports whose intended users are investors, provided that companies claiming conformance with the CCRF satisfy all of its requirements.

18. Following the above decision, the TWG debated whether it is necessary for the CCRF to define the scope of its applicability. The text of the May 2009 Exposure Draft stated that, although specifically designed for organizations that are required to prepare audited financial statements, any organization could use the CCRF for reporting on climate change. In the circumstances, it was agreed that a statement of applicability was unnecessary.

19. The TWG debated comments from respondents to the public consultation about whether the management commentary section of mainstream reports is the most suitable place for disclosures under the CCRF given concerns about the length and volume of management commentary. The TWG acknowledged that methods of disclosing sustainability and climate change-related information are continuing to evolve, with some large corporations having developed interactive web pages for navigation between mainstream financial reports and voluntary information. The TWG decided that:

    a. Guidance on the position of information (at paragraphs 2.32 – 2.35) should confirm that disclosures in mainstream financial reports may, where appropriate, be cross referenced to other documents or locations in order to avoid duplication, keep the length of disclosures manageable and provide contextual information, provided that disclosures in the mainstream financial report satisfy the characteristic of understandability.

    b. The definitions section (paragraph 1.3) of the CCRF should clarify what is meant by "disclosures made in or *linked* to mainstream financial reports".

    c. The assurance section (paragraphs 1.13 – 1.14) should provide information on assurance requirements for disclosures made in mainstream reports (paragraph 1.13) and assurance approaches to disclosures made in voluntary reports (paragraph 1.14) that might be linked to mainstream reports.

    d. Given the variety and continuing evolution of disclosure practices, the CCRF should not make any particular recommendations on the position of information and that the following words should therefore be deleted: "…in the early years of adoption, CDSB recommends that the CCRF is used to prepare a separate climate change section in the management commentary that covers all climate change-related disclosures…".

20. The TWG's intentions in making these decisions were to:

    a. Acknowledge and reflect current disclosure practices; and

    b. Allow flexibility concerning the position of information so as to keep the volume of mainstream disclosures manageable without losing the rigor and management responsibility that is appropriate to statements and disclosures made in mainstream financial reports.

Greenhouse gas emissions reporting

21. In so far as the content requirements in Chapter 4 relate to measurement of GHG emissions, the CCRF relies on "recognized GHG emissions reporting schemes" (defined at paragraph 4.20). There are two reasons for this:

    a. CDSB seeks to rely on and enhance, rather than duplicate existing standards and practices. CDSB has identified certain global, national and industry specific schemes/rules/methodologies as having been widely adopted by corporations or required by legislators. These are collectively defined in the CCRF as "recognized GHG emissions reporting schemes". In order to minimize reporting burdens and duplication of effort, the CCRF requirements state that GHG emissions results should be prepared by reference to one or more of the recognized GHG emissions schemes and categorized according to the GHG Protocol's "scopes".

    b. The CCRF's requirements provide that disclosures should comply with regulatory requirements for financial reporting or corporate disclosure of climate change-related information and that regulatory requirements take priority over the CCRF's requirements in the event of a conflict (paragraph 2.11). Relying on "recognized GHG emissions reporting schemes" (which include regulatory schemes) is consistent with that requirement. The CCRF confirms that GHG emissions results calculated under one or more recognized GHG emissions reporting scheme may be used for conformance with the CCRF, this is designed to minimize reporting burdens and duplication of effort.

22. The CCRF applies to disclosures made by "organizations", defined in paragraph 1.3 as "the group, company, companies or entities for which consolidated financial statements are prepared, including subsidiaries and jointly controlled entities for which

equity accounts are prepared". Similarly, greenhouse gas emissions results are intended to relate to activities and sources from within the "organization". However, the TWG recognized that differences in the way that business and corporate structures are owned and organized mean that individual companies within a group might apply different approaches to setting organizational boundaries for GHG emissions reporting. For example, a parent may apply a different method to its subsidiary, or other incorporated and non-incorporated entities under its control, and a different method to that applied by joint ventures and associates it has an interest in etc. The CCRF's recommendations on organizational boundary setting seek to limit and define the approach that a Group takes to accounting for its Scope 1 and 2 GHG emissions in order to support benchmarking, align with financial accounting practices, encourage consistency and enhance transparency.

23. The TWG also recognized that confining GHG emissions disclosures to the "organization" omits potential GHG emissions sources and activities that might be of interest to investors. The TWG therefore decided that the CCRF should recommend disclosure of "Part 2 GHG emissions" in addition to Part 1 GHG emissions which are for sources and activities of entities for which consolidated financial statements are prepared. This approach is in line with the draft CDP Framework, which also seeks to limit the approach to organizational boundary setting in the interests of standardization and comparability. The TWG recognizes that this approach will need to be tested and refined over time.

24. While Scope 3 GHG emissions reporting rules are being developed by the World Resources Institute and pending completion of CDSB's corporate and investor engagement programs[xiv], the TWG has decided that edition 1.0 of the CCRF should not specify requirements for the disclosure of Scope 3 GHG emissions except in the circumstances outlined in paragraph 4.27.

Statement of conformance

25. The requirement to provide a statement of conformance with the CCRF (paragraph 2.22) was prompted by various considerations. International Accounting Standard 1 (IAS 1) requires an entity whose financial statements comply with International Financial Reporting Standards to make an explicit and unreserved statement of compliance in the notes to the financial statements. In line with its general approach of alignment with the objectives and principles of financial reporting and in order to support assurance activities, the TWG decided that similar requirements should apply to organizations that adopt the CCRF. However, the TWG also recognized that climate change-related disclosure is a relatively new discipline and that organizations are at various stages in the development of their reporting techniques. Therefore, unlike IAS 1 which requires compliance with all requirements of International Financial Reporting Standards, the TWG agreed that the statement of conformance should allow for disclosures explaining whether and to what extent CCRF requirements have not been satisfied in full together with details of the organization's plans for future conformance. Therefore, conformance with the CCRF's requirements will include the requirement to identify and explain those with which it has not been possible to conform in whole or in part.

26. The TWG debated the interaction between the requirement for a statement of conformance and the application of the characteristics of decision-useful information (Chapter 3) for the determination and limitation of information to that which is most relevant and material. It was agreed that disclosures that limit information based on the application of the characteristics of decision-useful information (e.g.: relevance) can claim to be in conformance with the CCRF requirements. The TWG agreed that there is a distinction between the limitation of information based on the proper application of the characteristics of decision-useful information within the parameters of the CCRF requirements and the failure to satisfy requirements because of omission or limitation of information due to inaccessibility or unavailability of information, systems or resources.

Characteristics of decision-useful information

27. In response to comments made through the public consultation, the TWG has elaborated the characteristics of decision-useful information to describe in more detail how they should be applied to disclosures under the CCRF.

28. The enhancing characteristics of comparability, understandability, verifiability and timeliness have been incorporated into Chapter 2 to form guidance on the application of the requirements where appropriate.

29. The constraining principle of "cost" has been added in response to requests through the public consultation. The TWG discussed various concerns about the application of the constraining principle of cost to climate change-related disclosure, including the wording of the first sentence in paragraph 3.35, which implies that impact assessment and cost cannot be taken into account where information that is relevant and capable of faithful representation is identified for disclosure. Some TWG members were of the view that any organization choosing to apply the CCRF, by definition, also accepted the cost of conforming to the requirements. It was noted that studies that have attempted to identify the cost of making climate change-related disclosures have proved inconclusive as the estimates provided vary considerably between organizations. TWG members concluded that, at this stage in the development of climate change-related disclosure practices, it would be difficult to agree a generally applicable form of wording on the application of the constraining characteristic of cost. Members agreed that studies tracking the costs of climate change-related disclosure should be kept under review and that the Disclosure Implementation Guide to be released after publication of the CCRF should, as one of its aims, provide examples and guidance that might help organizations to limit the costs of conformance to the CCRF.

Disclosure content

30. Various changes have been made to what were known as "reporting templates" in the May 2009 Exposure Draft. The CCRF is designed to provide strategies and principles for applying professional judgment and to encourage clear communication of management's decisions. In its deliberations, the TWG decided that the use of the term "template" was not sufficiently indicative of the flexibility, judgment and interpretation that the CCRF intends management to apply to climate change-related disclosure within the parameters of the guidance. The disclosure content section has been refined to allow for this flexibility and application of judgment.

31. Responses to the public consultation on the May 2009 draft identified some duplication between Reporting Templates 1 – 3 and a respondent suggested that they should be merged. The TWG agreed that information about physical and regulatory risks associated with climate change should be covered under the general category of strategic analysis, risk and governance. The TWG decided that disclosure content should be streamlined under two main categories to minimize duplication whilst retaining the sense of what investors find important.

32. The May 2009 Exposure Draft made recommendations on the minimum content that management should provide as a matter of best practice. In particular, the draft Framework recommended that as a matter of best practice, companies should, at a minimum, disclose:

    a. A statement of the company's position on climate change;

    b. Actual direct and certain indirect GHG emissions; and

    c. GHG intensity measures.

33. The TWG debated the relative merits of retaining the minimum requirements/best practice recommendations and decided against because:

    1. Minimum requirements are potentially at variance with the judgments the CCRF encourages management to make;

    2. Sophistication of and familiarity with climate change-related disclosure is developing and improving through corporate social responsibility, voluntary and mandatory reporting. Legislators and regulators (for example the SEC) and investors (through CDP) have communicated the need for information through various channels and have expressed the need for information for benchmarking etc. Consequently, management is increasingly familiar with the types of information that are of most relevance and use to its business strategy and stakeholders without the need for third party specification;

3. The characteristics of decision-useful information in Chapter 3 provide clear guidance on the way in which they should be applied so as to identify what types of information are most relevant and useful.

i CDSB's members are listed in the Preface to the CCRF.

ii For further information about CDSB's focus on mainstream financial reporting, see Copenhagen Update, page 4, December 2009, available at www.cdsb.net.

iii Reuters Market Intelligence Series – Sustainable Banking: Risk, Reward and the Future of Finance.

iv Smith, J.A., Morreale, M. & Mariani, M.E, Climate change disclosure: Moving towards a brave new world, Capital Markets Law Journal, August 2008, p. 2.

v Copenhagen Update, Appendix 2, December 2009.

vi Copenhagen Update, Figure 3, page 5, December 2009.

vii 85% of companies that responded to CDP's 2009 information request declared reporting on GHG emissions in annual corporate reporting.

viii Copenhagen Update, page 3, December 2009.

ix For example, CDSB's Copenhagen Update, Appendix 2.

x See the IASB's Conceptual Framework project – its overall objective is to create a sound foundation for future accounting standards that are principles-based, internally consistent and internationally converged. http://www.ifrs.org/Current+Projects/IASB+ Projects/Conceptual+Framework/Conceptual+ Framework.htm

xi In particular, the International Integrated Reporting Committee, the OECD and UNCTAD's ISAR committee.

xii http://www.cdsb.net/news/news/cdsb-collaborates-with-the-princes-accounting-for-sustainability-project/

xiii http://www.ifac.org/Guidance/EXD-Details.php?EDID=0132

xiv CDSB's Work Plan 2010 (at www.cdsb.net) describes the investor and corporate engagement programs.

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