



CRS

center for
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June 27, 2014

Jarlath Molloy, PhD.
Climate Disclosure Standards Board (CDSB) Secretariat C/O - CDP
40 Bowling Green Lane
London, EC1R 0NE
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RE: Comments of Center for Resource Solutions (CRS) on *Proposals for Boundary Setting in Mainstream Reports* Discussion Paper

Dear Dr. Molloy and Colleagues:

Thank you for your consideration of our comments on the *Proposals for Boundary Setting in Mainstream Reports* (May 2014) discussion paper. In this letter we refer to paragraphs as numbered in the PDF/downloadable version of the document retrieved from:
http://www.cdsb.net/files/Proposals_for_mainstream_report_boundary_setting.pdf.

Our comments are organized into two main concerns.

No. 1: Apparent conflation of the organizational boundary with the boundaries of organizational performance and impact, and the exclusion of indirect GHG emissions on the basis of organizational boundary setting.

Organizational boundaries appear to be conflated with the boundaries of the performance and impacts being reported: “The content and scope of non-financial reporting, particularly where it requires disclosures on social and environmental impacts, seems automatically to extend the boundary of the organization beyond those matters over which it has direct control and significant influence” (para 53). It is our view that non-financial reporting does not extend the boundary of the organization, but rather the boundaries of its performance, impacts, opportunities, and risks.

In our view, organizational boundary setting applies to (limits the scope of) which facilities, activities, and operations get consolidated and how each facility/activity is categorized and treated within the consolidated group. It need not apply to or limit the scope of performance or impacts that are disclosed for those facilities that are included or the consolidated group. While boundary setting for the organization may be standardized and consistent with financial reporting, the scope of different performance indicators may need to vary from performance indicator to performance indicator based on best practices or existing requirements for measurement of different outputs, outcomes, risks, and impacts. For example, the boundary for GHG emissions from a facility may be different from the boundary for financial risk, each of which may consider emissions or risks that relate to activities outside of the organization’s boundary, but which nonetheless properly reflect the performance, impact, or risks of the reporting entity within the boundary.

Consistency in terms of the boundaries of reporting entities (matching financial boundaries) and consistency among reporting entities in terms of the information reported can still be achieved with the inclusion of a full GHG footprint (that includes both direct and indirect emissions) in financial reports. Emissions reporting can be consistent with the global regime for reporting emissions and financial reporting can be consistent with the established regime for reporting financial information. There is nothing about integrated reporting that should make emissions reporting different.

The International Integrated Reporting Council (IIRC) appears to make this distinction between boundaries for facilities, operations, activities vs. boundaries for risks and impacts (para 32). The Climate Registry (TCR) also appears to make this distinction. We recommend that CDSB support TCR's approach to emissions reporting and organizational boundary setting.

This conflation of organizational boundary with the boundary of reported impacts and performance may be the same that is identified in the discussion paper in paragraphs 55 and 70: "we observe a certain amount of conflation between the concepts of boundary setting, materiality, the intended objective of reporting and the audience for non-financial reports" (para 55), and "CDSB proposes that a distinction is drawn between information that is reported because it falls within the boundary of the consolidated group and information that is reported about the incidence and management of risk and opportunity" (para 70). But it is for this reason that we disagree with the paper's conclusions in paragraphs 69-71 regarding the measurement and reporting of scope 3 emissions.

Consolidated group reporting can require measurement of the scope 3 emissions of the group. Scope 3 emissions and other risks and opportunities that are external to the organization may nevertheless qualify as "information that [...] falls within the boundary of the consolidated group" (para 70) or "data that falls within the consolidated boundary" (para 71) and relates to activities of a company that fall within the boundary. Again, we feel the boundary applies to the group, not to its performance, risks and opportunities. *Indirect emissions can still fall within the consolidated boundary as indirect emissions.* The purpose of indirect emission categories is to capture a company's influence beyond its direct emissions. The influence is the company's, though the emissions may not be. For many companies with little to no direct emissions but that are large consumers, reporting only direct emissions would not achieve the objectives of integrated reporting with respect to emissions.

Finally, scope 2 emissions are not mentioned in the paper. We are curious as to whether scope 2 emissions, which are also indirect emissions, will be required or included, and if so why scope 2 and 3 emissions should be treated differently.

No. 2: Proposal 2 (para 57-59) and its effect on measurement of GHG emissions (para 67).

We agree that there should be consistency in organizational boundary reporting rules so that, for example, certain emissions are not reported as indirect for everyone or left out altogether (all scope 2 and 3 emissions must be reflected in someone else's scope 1). But it is also important to ensure that the single approach to group reporting does not result in double counting. To avoid double counting, where emissions have been assigned and counted under a certain regime, this must not be "disregarded" along with local reporting requirements (para 57), but rather this must be reflected in any consolidated report. This still does not mean simply aggregating the facility or entity level reports, or that that groups can disregard certain facilities within the organizational boundaries on the basis that they have reported previously. But legal claims to emissions and other benefits must not be disregarded.

The single approach should also not disregard local circumstances by considering only the consolidated group and ignoring the choices and activities of individual facilities and entities within the group. It should not disregard local activities in favor of averages and estimates of corporate-wide activity. Reporting (especially GHG reporting) should not lose resolution as it is scaled up, and it should not double count. For example, the single approach for the group should not replace emissions calculated at a facility level based on the purchasing choices of the entity with a broad-scale calculations based on average emissions factors for the average use of the group (para 67).

In summary, we support a single approach for group disclosures and they should not simply aggregate the facility or entity level reporting done previously or separately (since local approaches may differ). However, local/facility reporting should be reflected in the group disclosure such that 1) double counting is avoided and previous legal allocations of and claims to emissions and benefits are respected, 2) all emissions are accounted for, and 3) accuracy and precision in reporting is maintained by properly considering local circumstances, activities, and purchasing decisions.

Thank you again for your consideration. Please let me know if you have any questions or would like to discuss these comments further.

Sincerely,

A handwritten signature in black ink, appearing to read 'Todd Jones', with a stylized, cursive script.

Todd Jones
Manager, Green-e Climate
Center for Resource Solutions

Cc: Mardi McBrien, Managing Director, CDSB