

CDSB Position Paper

The CDSB Framework for reporting environmental information & natural capital

Positions on relevance & materiality, organisational boundaries and assurance

The purpose of this document is to explain the positions that CDSB has adopted in relation to three key themes in the CDSB Framework for Reporting Environmental Information and Natural Capital (the “CDSB Framework”). These are:

- relevance and materiality;
- organisational boundary setting; and
- assurance.

The CDSB Framework is designed for the purpose of reporting environmental information in mainstream reports. The positions adopted by CDSB align as far as possible with features of the mainstream-reporting model, so that environmental information may be prepared and presented in a structured way within the architecture of existing mainstream reports. These have been informed by developments in sustainability and corporate reporting and by the work of CDSB’s Board members. During the course of CDSB’s consultations, webinars and research on the development of the CDSB Framework, the three themes considered in this document were consistently and frequently raised as presenting operational and conceptual reporting challenges.

1. Relevance and materiality

The main references to relevance and materiality in the CDSB Framework are found in Principle 1 and Requirements 02 and 04 as follows:

Principle 1 – Environmental information shall be prepared applying the principles of relevance and materiality.

Requirement 02 – Disclosures shall explain the material current and anticipated environmental risks and opportunities affecting the organisation.

Requirement 04 – Quantitative and qualitative results, together with the methodologies used to prepare them, shall be reported to reflect material sources of environmental impact.

The reporting challenges related to the concept of materiality are not confined to reporting environmental information. An IASB staff paper¹ summarises various issues pertaining to materiality as applied to financial reporting. Many of the issues apply equally to the concept and application of materiality for the purposes of other forms of reporting.

The following considerations guided CDSB's thinking on relevance and materiality based on research about materiality as at the date of publication of the CDSB Framework. CDSB will continue to monitor the IASB's Disclosure Initiative "Principles of Disclosure" and Conceptual Framework projects and the work of SASB, IIRC and others, and recognises that new thinking on materiality is likely to emerge over time.

1. Consistency with materiality as applied in the mainstream-reporting model

The CDSB Framework is designed for reporting environmental information in mainstream reports. Therefore any guidance in the CDSB Framework about relevance and materiality should align with approaches to those principles used for preparing mainstream reports, including those prescribed in International Financial Reporting Standards, Governance Codes, guidance produced by regulators etc. In formulating our approach to relevance and materiality, we considered definitions of materiality that inform the main components of mainstream reports including financial statements, management commentary and governance statements. A report² by the ACCA, Fauna and Flora International and KPMG on identifying natural capital risk and materiality provides a useful summary of materiality definitions used by certain key standard setters and bodies. The definitions of relevance and materiality in paragraphs P1.1 and P1.2 of the CDSB Framework adopt and develop the themes set out in those definitions.

2. Materiality and proportionality – Whilst encouraging environmental information to be reported, the CDSB Framework does not intend to contribute to "clutter" in mainstream reports and the inclusion of environmental information must be proportional. The CDSB Framework therefore allows cross-referencing to other sources of information outside the mainstream report, where appropriate, except when regulatory requirements prohibit this (see paragraph 7 of the Introduction to the CDSB Framework). The CDSB Framework also acknowledges (see paragraph 1 of the Introduction) that certain information is routinely disclosed in a mainstream report, such as the organisation's principal activities, its supply chain and performance indicators. This routine information provides context for environmental information and should be adapted or cross-referenced as necessary rather than repeated or

¹ <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/November/AP11C-Disclosure%20Initiative.pdf>

² ACCA, KPMG, Fauna & Flora International (2014) - Identifying natural capital risk and materiality. [PDF] Available at <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/sustainability-reporting/natural-capital-materiality-paper.pdf>

duplicated for the purposes of reporting according to the CDSB Framework.

3. **Materiality determination process and outcome** – Similarly, CDSB works on the assumption that the materiality determination process already used by the organisation is applied equally for the purposes of identifying material environmental information. The CDSB Framework does not require that the determination process is reported – only the outcome of the process as it applies to environmental information (see paragraph P1.4 of the CDSB Framework).
4. **Clarification of scope, stakeholder group and time frames for materiality**
Corporations prepare environmental information for multiple purposes including compliance, communications with stakeholders, sustainability reporting and responses to specific information requests. As noted by the ACCA³, this can result in variable application of the “materiality lenses” by which issues and concerns are deemed significant and relevant by particular organisations, and are reported. The CDSB Framework therefore seeks to clarify how the three components or lenses, identified by the ACCA as being necessary for materiality determination, should be interpreted for the purposes of conformance with the CDSB Framework as follows:
 - a. **The scope of issues that are potentially material.** For the purposes of the CDSB Framework, the scope is “environmental information” as defined in paragraph 8 of the Introduction to the CDSB Framework;
 - b. **The stakeholder group whose interests should be taken into account in determining materiality.** As stated in paragraph 5 of the Introduction to the CDSB Framework, investors are the main audience for information prepared according to the CDSB Framework;
 - c. **The time frame over which environmental impacts should be assessed for materiality purposes.** For the purposes of the CDSB Framework, the time period over which organisations should consider impacts is to be determined by management. CDSB notes that the FRC’s UK Code of Corporate Governance refrains from prescribing the horizon over which management should assess the prospects of the company and CDSB adopts a similar approach. However, over time CDSB relies on growing calls for long-term thinking and business planning and long-term investing to influence mainstream business and investment horizons towards the long-term.

³ *ibid.*

5. Materiality of climate change

The CDSB Framework provides that “GHG emissions shall be treated as material in all cases as a contributor to climate change and shall be reported in Requirement 04.”

The IASB staff paper¹ on materiality refers to the possibility of materiality being interpreted to mean that a disclosure is necessary only in the event that the matter in question is material **to the entity** and that “this creates the illusion that materiality is not necessary in other instances.” CDSB’s Technical Working Group shared the concern that the application of “reporting entity-specific materiality” might lead management to conclude that climate change is not material and that GHG emissions and climate impacts should not be reported. However, CDSB was formed because its members believe that climate change **is** a material global risk to business, investors and capital markets as well as to the environment and society and that it is an organisation’s fiduciary duty to report the business implications of climate change to its investors. The CDSB Framework therefore seeks to reconcile the possible outcomes of business applying “reporting entity-specific materiality” (i.e.: what is important to the organisation) with the objectives of CDSB Board members relating to what is important to business, investors, society and the planet.

6. Trends in natural capital reporting

All of the reports surveyed by the ACCA² identified some material environmental issues. However, some of the information provided about those issues was only high level and generic, quoting conclusions and predictions made by others such as UN agencies without providing information specific to the organisation. The CDSB Framework aims to discourage such generic statements and encourage information that shows links between an organisation’s activities, performance targets and goals risk reporting, governance and outcomes. The CDSB Framework recognises that “...materiality will be different for each organisation” (paragraph P1.3) and discourages:

- Standard formulations that reiterate financial information without analysis;
- Generic disclosures that do not relate to the specific practices and circumstances of the disclosing organisation;
- 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.”

2. Organisational boundary setting

Organisational boundary setting is addressed in Requirement 07 of the CDSB Framework. The intention of the CDSB Framework is to ensure, as far as possible, that the organisational boundary used for environmental reporting purposes is the same as – or capable of reconciliation to – the boundary used for the mainstream report.

Requirement 7 provides that “environmental information shall be prepared for the entities within the boundary of the organisation or group for which the mainstream report is prepared and, where appropriate, shall distinguish information reported for entities and activities outside that boundary. The basis on which the organisational reporting boundary has been determined shall be described.”

CDSB’s approach to organisational boundary setting is explained fully in its May 2014 Discussion Paper “Proposals for boundary setting in mainstream reports”⁴. Generally, reactions to the discussion paper were positive, with respondents mostly agreeing that the scope and boundaries of financial and non-financial reporting should be aligned as far as possible. However, many respondents also suggested that the CDSB Framework should be more flexible in its approach to organisational boundary setting to recognise the fact that many organisations use the “operational boundary” approach for reporting and that for some organisations, the majority of sources of environmental impact occur in the value chain. Requirement 07 of the CDSB Framework therefore acknowledges that environmental information pertaining to activities outside the organisation’s mainstream boundary should be disclosed in the circumstances set out in the CDSB Framework, but requires that such information should be clearly distinguished from information about entities and activities within the mainstream reporting boundary. As stated in CDSB’s Discussion Paper (paragraph 5), the position adopted by CDSB on organisational boundary setting is aligned with the approaches taken by the International Integrated Reporting Council in its International Integrated Reporting Framework and by the Sustainability Accounting Standards Board.

3. Assurance

Requirement 12 of the CDSB Framework deals with assurance. In brief, the CDSB Framework encourages but does not require assurance. The focus of the CDSB Framework is on reporting rather than assurance, but the reporting requirements and guiding principles therein are designed to represent suitable criteria in order to support assurance activity. If and to the extent that environmental information reported according to the CDSB Framework is assured, Requirement 12 provides that the resulting assurance opinion shall be included or cross-referenced in the statement of conformance (see Requirement 11).

Invitation to comment

CDSB welcomes discussion about and input to our work. If you would like to comment on the positions above or on the CDSB Framework, please contact us at info@cdsb.net. For further information, please consult www.cdsb.net.

⁴ http://www2.cdsb.net/files/Proposals_for_mainstream_report_boundary_setting.pdf