

# **CDSB** **Framework** consultation draft

Promoting and advancing disclosure  
of environmental information.

# Preamble

## About CDSB

The Climate Disclosure Standards Board (CDSB) is a consortium of business and environmental organizations formed at the World Economic Forum’s annual meeting in 2007. CDSB’s purpose is for member organizations jointly to develop and advocate an international reporting framework for use by companies when making disclosures in, or linked to, their mainstream financial reports. This initially focused on the risks and opportunities that climate change presents to their strategy, financial performance and condition. This consultation expands that scope further.

A draft of CDSB’s original Framework was originally released for public consultation at the World Business Summit on Climate Change in May 2009. Edition 1.0 was published in September 2010. Edition 1.1 was released in October 2012 to reflect updates to some of the International Accounting Standards Board’s (IASB) pronouncements and clarification of CDSB’s position on organizational boundary setting. In March 2013 separate guidance on communicating climate change in mainstream reports was published to complement the Framework.

CDSB’s mission has since expanded to encompass other types of environmental information related to climate change in its Framework, in particular information about water and forest risk commodities. The decision to expand the Framework was prompted by various factors, including the development of compliance requirements for disclosure of environmental information in some jurisdictions<sup>1,2,3,4</sup> and the demand for a more holistic approach to corporate reporting on environmental information. In particular, our approach now takes account of the mutual interdependence between i) finance, ii) the extraction, production and consumption of forest risk commodities and water and iii) associated outputs from business activities, such as greenhouse gas (GHG) emissions, as contributors to current environmental challenges including climate change.

Building on the work of its Board members, CDSB seeks to standardize reporting of certain types of environmental information through collaboration and by identifying and coalescing around the most widely shared and tested reporting approaches that are emerging around the world. CDSB therefore adopts relevant principles from existing standards and practices with which business is already familiar. CDSB has drafted Edition 2.0 of its Framework in line with the objectives of financial reporting and updated the text to incorporate other developments in corporate reporting.

CDSB’s Board provides strategic direction for our work and consists of organizations that are leading work, on a global scale, to develop or influence climate change policy. The Board is chaired by Richard Samans (Managing Director of the World Economic Forum). CDP (formerly the Carbon Disclosure Project) provides the Secretariat to CDSB and is responsible for coordinating the day-to-day work program on behalf of the consortium.

A group of leading industrial and financial services companies together with governmental and non-governmental representatives act in an advisory capacity to CDSB. A Technical Working Group formed of representatives of the major accounting firms and professional bodies coordinates CDSB’s work program with expert input from academics and specialist collaborators. Members represent a range of organizations including:

Association of Certified Chartered Accounts (ACCA), Carbon Tracker, CDP, Ceres, CPA Canada, Deloitte, EY, Fund Votes, Grant Thornton, Institute of Chartered Accountants in England and Wales, Interactive Leader, International Federation of Accountants (IFAC), Japanese Institute of Certified Public Accountants, KPMG, London School of Business and Finance, A.P. Moller-Maersk, National Physical Laboratory, Natural Capital Declaration, Promethium Carbon, PwC, School of Oriental & African Studies, Sustainability Accounting Standards Board (SASB), The Climate Registry, University of Edinburgh, World Business Council for Sustainable Development (WBCSD), World Resources Institute (WRI).

We welcome your input, comment and questions. For further information about this consultation, see [www.cdsb.net](http://www.cdsb.net) or email [info@cdsb.net](mailto:info@cdsb.net). Dissemination of the contents of this Framework is encouraged. Please give full acknowledgement of the source when reproducing extracts in other published work. No responsibility for any person acting or refraining to act as a result of material in this document can be accepted by the Climate Disclosure Standards Board or CDP.

# Request for comments

<b>Subject of this consultation:</b>	Evaluating the CDSB Framework (edition 2.0) consultation draft as it applies to disclosure of environmental information by organizations in mainstream reports.
<b>Geographical scope:</b>	Global.
<b>Availability of materials:</b>	The CDSB Framework consultation draft and accompanying discussion papers are available at <a href="http://www.cdsb.net/consultation">www.cdsb.net/consultation</a> . Guidance on using the consultation platform is available at <a href="http://www.cdsb.net/consultationguide">www.cdsb.net/consultationguide</a> .
<b>Duration of consultation:</b>	17th February 2014 to 19th May 2014.
<b>Consultation due process:</b>	To find out more about the procedures, processes and principles for this consultation, visit <a href="http://www.cdsb.net/dueprocess">www.cdsb.net/dueprocess</a> .

## How to submit your comments

<b>Language:</b>	Please submit your comments in English.
<b>Consultation platform:</b>	Responding using the consultation platform is the preferred method for you to comment. The consultation platform allows you save your feedback and return to it until you have finished your review. To respond to the consultation please visit <a href="http://www.cdsb.net/consultation">www.cdsb.net/consultation</a> .
<b>By email:</b>	Alternative via email to <a href="mailto:secretariat@cdsb.net">secretariat@cdsb.net</a> .
<b>By post:</b>	Alternative via post to CDSB, C/O CDP, 40 Bowling Green Lane, London, EC1R ONE, United Kingdom.
<b>Information provided:</b>	All comments made on the consultation platform will be visible to other registered users to see and comment on. All comments received through the consultation platform or by email or post will be considered a matter of public record and will be published through the consultation platform or on <a href="http://www.cdsb.net">www.cdsb.net</a> . Extracts from your response may be used in our publications or we may publish your comments in their entirety. If you want your response to be treated as confidential, please contact us first. We cannot guarantee that confidentiality can be maintained in all circumstances.

## What to say

<b>After the consultation:</b>	A consultation report shall be published with, or shortly after, publication of the Framework.
<b>We invite:</b>	Responses to the following specific questions, general comments about the draft Framework and editorial comments on the text in the draft Framework.
<b>Comments are most helpful:</b>	When the rationale for them is explained, specific suggestions for any proposed changes to wording are made and it is clear to which part(s) of the draft Framework your comments refer.

# Consultation questions

1. The objective of the Framework is explained in Section I. Do you agree with the objective as stated? 
2. Do you agree that there is a need for a Framework that focuses on:
  - A) Reporting requirements for particular reporting organizations (defined in Section I);
  - B) Specific environmental information (as defined in the draft Framework);
  - C) A specific audience (investors); and 
  - D) Information presented in mainstream reports? 
3. **Scope of the Framework.** The Framework asks for information about “changes” by organizations to particular “*environmental elements*”. These environmental elements represent a sub-set of resources and processes often described more widely as “natural capital”.
  - A) Do you believe that the scope of the Framework is appropriate? 
  - B) If not, is the scope too wide or too narrow? Please explain why.
  - C) If too narrow, which other environmental elements or other subject matter should it cover and why?
  - D) If your organization already does or is planning to report on natural capital through a mainstream report, do the Framework’s requirements help (albeit the environmental elements represent only a subset of natural capital at this stage) and if so, how?
4. **Form of reporting environmental information in mainstream reports.** Given that the content and presentation of mainstream reports varies, it is difficult to specify exactly where and how information should be reported, but there is a demand for consistency of approach so that readers know where they can expect to access information.
  - A) Do you think that there is a particular part of a mainstream report that should include environmental information, such as management discussion / analysis / commentary or does it depend on the nature of the information? 
  - B) Do you think we should reproduce the guidance in paragraph 2.34 of Edition 1.1 of the CDSB Framework which outlined options for presenting environmental information within management commentary;
    - as a separate section, under a subheading within the risk section;
    - interspersed in various sections of the management commentary to reflect linkages between environmental information and other aspects of the company’s business such as corporate strategy, capital resources, key performance indicators and so on? 
  - C) Should the Framework include guidance on how environmental information should be reported where the mainstream report is communicated online? 
5. **Environmental information in mainstream reports.** The Framework focuses specifically on requirements and guidance that help organizations to report on environmental information in mainstream reports. This is because CDSB believes that organizational performance is affected equally by the economic / financial *and* the environmental resources that a company needs / uses as well as by the effect of its activities and outputs on economic / financial and environmental resources.
  - A) Do you think that environmental information produced according to the Framework is sufficient to explain how performance is affected by the organization’s dependence on, use of and effect on environmental elements?
  - B) If not, what requirements should be added or changed?

**6. What are your views on the language and terminology used throughout this Framework?**

In the interests of clarity and due to the absence of existing definitions, it has been necessary to define certain terms in the Framework, mainly in Section I. In other cases, for consistency, we have adopted language from existing reporting frameworks and standards with which we expect business is already familiar.

- A) What are your views on the definitions, style, clarity of language, jargon etc. used in the Framework? 
- B) Do you have any suggestions for simplifying the language, definitions and terminology without losing clarity?
- C) Are the definitions, language and terms used in the Framework consistent with those in other reporting initiatives and standards that you use?

**7. Minimum reporting requirements.** Various commentaries and reports refer to corporate reports being too long, cluttered and complex, thereby obscuring information that is important for decision-makers. The Framework repeats requirements from previous editions that information should be “characterized and presented clearly and concisely.”

- A) Do you think that specifying minimum reporting requirements for “environmental requirements” (as defined in the Framework) would help to achieve more relevant and concise disclosures? 
- B) If so, what do you think those minimum requirements should be for each environmental element? For example, what are your views on the inclusion of non-Kyoto greenhouse gasses and whether we should provide for voluntary reporting of scope 3 (downstream) GHG emissions?
- C) If not, do you have any other suggestions as to how the Framework’s requirements could be refined so as to help reduce the length and complexity of corporate reports that contain environmental information? 
- D) How helpful are the requirements in Section IV, particularly about relevance and materiality, in helping to identify the minimum information that should be reported in order to satisfy the objectives of the Framework? 

**8. What are your views on the availability and maturity of metrics and indicators for use in environmental reporting?**

In particular, we are interested in your views on which metrics and indicators are most widely used and most useful for communicating environmental performance. We would also welcome your views on the further development of metrics and indicators for environmental reporting that would be of assistance to users. 

**9. Influences.** The development of the Framework has been influenced by other frameworks, standards and initiatives that share CDSB’s objectives and cover similar subject matter. References to other materials are shown in the Framework. At this stage in development, we are aware that they may not be complete.

- A) What other influences should CDSB take into account in developing its Framework? 
- B) What other references should be included which are helpful for the preparation of environmental information in mainstream reports?

**10. Assurance and verification.** REQ-17 asks organizations to disclose whether assurance or verification from third parties has been obtained for some or all of the environmental information disclosed in response to the Framework’s requirements.

- A) What other standards or approaches may be used for verifying or assuring environmental information? 
- B) What are your views on whether assurance or verification should be required for environmental information disclosed in mainstream reports? 

**11. Any other comments**

# Foreword

There are increasing calls for the corporate sector to widen its focus from the maximization of short-term shareholder value to the creation of long-term value for shareholders, society and the environment; not for altruistic reasons, but because creation of long-term value for shareholders and others produces better results for corporations.

The burgeoning demand for corporations to consider the broad range of resources and relationships they use and affect in order to create value has prompted changes in the way in which organizations measure and report on their performance and prospects. Value creation is recognized as relying on and affecting different types of capital. Increasingly, organizations are reporting their consumption / use of and affect on those different types of capital and the consequences for society and the environment.

External reporting offers a means to establish a dialogue between organizations and their stakeholders. Showcasing progress and articulating future targets and commitments via corporate reports allows stakeholders to provide feedback on these aspects, strengthens corporate accountability and builds credibility with employees, local communities, civil society, regulators and governments. Reporting can also help organizations hold other stakeholders accountable on these issues. Developing trust and accountability with stakeholders reinforces an organization's license to operate and serves as a starting point for partnerships and collective action in response to shared risks and in support of sustainable environmental management.

Many organizations including CDP, Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), International Organization for Standardization (ISO), United Nations (UN) agencies, World Business Council for Sustainable Development (WBCSD), World Resource Institute (WRI) and others are developing tools, resources, methodologies and frameworks etc. to help organizations identify, measure and report on different types of capital consumption and impacts. CDSB seeks to endorse and enhance that work in so far as it relates to environmental information within the scope of the CDSB Framework, rather than to duplicate it.

This draft edition 2.0 of CDSB's Framework sets out an approach for organizations to use when reporting certain environmental information (particularly GHG emissions, climate change-related risks, opportunities and strategies, forest risk commodities and water) in or linked to their mainstream corporate reports. Information prepared in accordance with the CDSB Framework is designed to allow investors to assess the relationship between specific environmental matters and the organization's strategy, performance and prospects.

The Framework seeks to equate stocks and flows of certain environmental assets, goods and services with stocks and flows of financial assets, goods and services as being essential for an understanding of corporate performance. Performance for the purposes of the Framework therefore takes account of both financial and environmental performance. However, the equivalency does not extend to implying that environmental assets, goods and services are always commodifiable, exchangeable and replaceable in the same way as their financial equivalents. CDSB's mission is based on the premise that the continuance of economic, social and environmental systems depends on limiting the use, trading and exchange of environmental assets, goods and services in line with planetary boundaries.

The Framework recognizes that the provision and allocation of financial capital by investors has a direct effect on the price, quality and availability of environmental assets and on the ability of the environment to provide goods and services. The Framework therefore focuses on eliciting from organizations information that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. Through the provision of robust environmental information, we hope to encourage analysis and decision-making by investors that recognizes the dependence of economic and financial stability on a stable and flourishing environment.

The Framework focuses on:

- Environmental subject matter, including climate change, fossil fuel energy resources, forest risk commodities and water as factors that operate as a single system and together affect an organization’s ability to create or erode economic, social and environmental value;
- The mainstream reporting model, recognizing that there are gaps and conceptual challenges as well as opportunities in the existing corporate reporting model that need to be addressed or developed to support environmental reporting;
- Investors as consumers of information in mainstream reports with stewardship duties over the allocation of capital.

As part of the consultation on draft edition 2.0, two discussion papers will also be released for public comment. These focus on fossil fuel energy resources and organizational boundaries respectively. The discussion papers provide a fuller analysis of the possible reporting approaches on fossil fuel energy resources and organizational boundaries than is possible in the body of the Framework. Therefore, whenever reference is made to fossil fuel energy resources or organizational boundaries in the Framework, the discussion papers should be consulted for further information. Please refer to [www.cdsb.net/consultation](http://www.cdsb.net/consultation) for further information about the discussion papers.

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# Section I: Introduction

## A) About the CDSB Framework

The CDSB Framework is referred to as “*the Framework*” hereinafter. The following section:

- Sets out the scope and objective of the Framework;
- Explains how relevant reporting materials developed by others are referenced in the Framework;
- Describes the requirements and guidance in the Framework;
- Introduces and defines certain essential terms that are used in the Framework. Terms that are introduced and defined appear in bold italic text in Section I but appear in normal text elsewhere in the Framework. Definitions for other terms used in the Framework may be found in the Appendix;
- Describes the influences that have informed development of the Framework;
- Explains the status and structure of the Framework.

## Objective of the Framework

The purpose of Framework is to help organizations prepare and present ***environmental information*** in or linked to mainstream reports.

Information prepared and presented according to the Framework is intended to help investors, as users of mainstream reports, to gauge the relationship between ***environmental elements*** and the strategy, performance and prospects of organizations and to allocate resources accordingly<sup>7</sup>. The Framework’s objective is aligned with the objective of financial reporting, that 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<sup>8</sup>.

## Framework requirements and guidance

The Framework contains requirements and guidance about how ***environmental information*** should be prepared and presented by ***reporting organizations*** in or linked to ***mainstream reports***.

The Framework provides requirements and guidance on:

- What ***environmental information*** to report about interactions between the organization, the context in which it operates and ***environmental elements*** (Section II);
- What to disclose about the organization’s reporting practices on ***environmental information*** (Section III);
- How to report ***environmental information*** in mainstream reports (Section IV).

The Framework does not prescribe quantification approaches or units for reporting quantities of ***environmental elements***. Rather, it refers to other frameworks and standards that prescribe quantification approaches. References to other reporting standards and frameworks are shown in [Section V SG-01](#).

While the Framework is designed for disclosure of ***environmental information*** in or linked

to **mainstream reports**, it does not provide requirements or guidance on accounting for, or valuing in financial statements, the financial implications of **environmental challenges**, or of mitigation and adaptation activities.

Requirements to establish conformance with the Framework are preceded by “REQ”, presented using the term “shall”. All other text represents guidance and explanatory material. Supplementary guidance on how to respond to the requirements is provided in Section V.

## Scope and essential definitions

In the Framework **environmental information** means information about **environmental elements** that enables users of mainstream reports to assess:

1. The organization’s management, use of and reliance on **environmental elements** in the reporting period and over appropriate timescales;
2. Which **environmental elements** are owned, used or consumed as inputs to the business, together with their provenance and the measure of the inputs consumed or used in the reporting period and anticipated consumption/use over appropriate timescales;
3. Outputs from the reporting organization of or to **environmental elements**, including GHG emissions, discharge to water and the measure of those outputs;
4. How the context within which the organization operates affects the availability, quality, price of and access to **environmental elements**;
5. The business implications of and risks and opportunities associated with 1–4;
6. The organization’s response to **environmental challenges**.

**Mainstream 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 reports** are normally publically 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 reports differ internationally.

**Mainstream 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)<sup>9</sup>, national standards or generally accepted local accounting practices. They also include 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”<sup>10</sup>. The main component of other financial reporting is management commentary<sup>11</sup>, also described as management discussion and analysis.

The phrase “linked to” **mainstream reports** recognizes that disclosures may cross referenced to or from relevant sections of the **mainstream report** or a company website; and that mainstream reports may be complemented by voluntary reports for investors. Where environmental information is reported in voluntary reports and linked to the **mainstream report**, the

Framework's requirements must be satisfied in order to claim conformance with it.

**Environmental elements** for the purposes of the Framework are:

### 1. Greenhouse gases

- The Kyoto GHGs: CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub> and NF<sub>3</sub>, but also including other non-Kyoto GHGs such as CFCs and HCFCs, where such GHGs make a material contribution to the organization's total carbon dioxide equivalent emissions.

### 2. Forest risk commodities

- Forest risk commodities refer to particular commodities and products that are linked to forest conversion and deforestation and that present risk to the livelihoods of forest-dependent people or forest ecosystems and that exacerbate climate change. For the purposes of the Framework, those commodities are biofuels, cattle products, palm oil, soy and timber.
- Biofuels; includes all biofuels that are produced from crops (such as corn, wheat, sugar beet) and biodiesel made from oils such as palm and soy. It excludes biofuels produced from algae, or biofuels blended with publically available gasoline due to regulatory requirements and consumed for transportation.
- Cattle products; includes all food products containing beef, all clothing, furniture and accessories that are made of leather, tallow and all other products derived from cattle.
- Palm oil; includes crude palm oil and all of its chemical derivatives. It also includes palm kernel oil and its derivatives. Palm oil used for biofuel production is categorized as biofuel.
- Soy; includes all meal or oil containing soy and any derivatives that are obtained from soy.
- Timber; includes all solid timber as well as products made from processed wood fiber such as paper, cardboard and specialty fibers such as viscose.

### 3. Water

- Water refers to surface and subsurface sources of water from the inland water system. Surface sources are from oceans, rivers, lakes, streams, wetlands, artificial reservoirs, municipal water supplies, snow, ice and glaciers. Subsurface sources include ground water and soil water.

### 4. Fossil fuel energy resources

- See discussion paper.

Organizations create value for themselves and their members by changing or causing change to **environmental elements**, or allowing or facilitating others to do so. **Environmental elements** are **changed** by organizations and others when they are:

- + Used, consumed or processed - for example use of water and forest commodities
- + Extracted - for example fossil fuel energy resources
- + Abstracted - in the case of water; and
- + When GHGs are emitted and water is discharged.

Environmental elements on which the organization depends to create value for itself and its members are described in the Framework as **environmental requirements**.

Other phrases, such as “*environmental challenges*”, “*environmental matters*” and “*environmental results*” are to be construed accordingly, for example:

- + **Environmental challenges** are threats to the organization, the context within which it operates, its suppliers, customers etc. from degradation or depletion of **environmental elements**, climate change, regulatory restrictions on and societal expectations about the way in which organizations change **environmental elements**;
- + **Environmental matters** is the term used in the Framework collectively to describe factors, including context, risks, challenges, opportunities, regulation and societal expectations, pertaining to **environmental elements**;
- + **Environmental results** reflect the extent to which **environmental elements** are **changed** in the reporting period.

The terms **reporting and disclosure** are both used in this Framework. The activities of reporting and disclosure are closely linked. Generally **reporting** means the provision of specific information in response to a specific requirement. **Disclosure** refers to notes that explain and amplify the reported information and that enable the reader to interpret it. Disclosures therefore explain and complement information reported in response to a specific requirement.

**Reporting organizations** (referred to as organizations) are companies, entities or groups for which mainstream reports are prepared and that are obliged or elect to report **environmental information** in order to:

- + Respond to regulatory requirements;
- + Inform internal decisions;
- + Adopt/conform to good or industry reporting practice in or linked to mainstream reports;
- + Report on **natural capital**.

Although this Framework specifically targets organizations that are required to complete mainstream reports, private organizations and/or small and medium enterprises are welcome to use the Framework for reporting **environmental information**.

**Natural capital** refers to renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization; including air, water, land, minerals, forests, biodiversity and eco-system health<sup>12</sup>. Natural capital covers a much wider range of resources and processes than the Framework. However, the Framework may be used for reporting on **environmental elements** as a sub-set of natural capital.

The **global commons** refers to resources that are un-owned, un-privatized, un-regulated, free and shared by all. These include the oceans and the atmosphere and the environmental goods and services that they provide<sup>13</sup>.

## Interaction between environmental information and other information

CDSB recognizes that **environmental information** may cause organizations or investors to assess the social or other consequences of the organization changing **environmental elements**. Whilst reporting on the social and other implications of **environmental information** is outside the scope of the Framework, CDSB encourages organizations to consult material offered by others (for example as listed under Framework Influences below) for the purposes of determining what and how to report on those implications.

## Objective of environmental information in mainstream reports

CDSB's Framework recognizes, in common with the IIRC<sup>14</sup> that organizations rely on continuing inputs of “*capital*” from different sources including the financial system and the environment, which provides natural capital. Information produced by organizations according to the Framework enables investors to exercise their duty of stewardship in relation to both types of capital. The Framework therefore focuses on the needs of investors as the primary users of information and disclosures should be determined and presented in such a way as to maximize their usefulness to investors in accordance with the Framework's requirements.

## B) Framework influences

### Influences

The Framework has been developed to enhance and complement rather than to duplicate existing corporate reporting approaches that support disclosure of environmental information in or linked to mainstream reports. The Framework therefore draws on and cross-references material developed by others as well as material published by CDSB in previous editions of its Framework. The guidance in the Framework is aligned as far as possible with, and aims to bring together relevant principles from, existing and developing standards, models and practices including:

- + Financial reporting standards, principles, proposals and discussion papers issued or commissioned by the International Accounting Standards Board (IASB) and its predecessor bodies and national counterparts, e.g. IFRS practice statement on management commentary<sup>15</sup>;
- + Legislation and guidance issued by regulators on aspects of corporate information and mainstream reporting, such as the Australian Water Accounting Standard 1 issued by the Water Accounting Standards Board<sup>16</sup> and the UK Department of Environment, Food and Rural Affairs' (DEFRA) guidance on environmental reporting<sup>17</sup>;
- + Developing and final voluntary frameworks, standards and guides on corporate reporting, such as the IIRC <IR> Framework<sup>18</sup>, SASB's industry specific sustainability accounting standards<sup>19</sup>, CEO Water Mandate's draft Corporate Water Disclosure Guidelines<sup>20</sup>, ISO 14064-1 “*Specification with guidance at the organizational level for quantification and reporting of GHG emissions and removals*”<sup>21</sup>, OECD guidelines for multinational enterprises<sup>22</sup>, Principles for Responsible Investment, UN Global Compact principles and GRI G4 Reporting principles & standard disclosures<sup>25</sup>;
- + The work of CDSB Board members including CDP's Information Requests<sup>26</sup>, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) developed by WRI and WBCSD<sup>27</sup>, Ceres' Aqua Gauge<sup>28</sup>, WBCSD's Global Water Tool<sup>29</sup> and WRI's Aqueduct<sup>30</sup>.

### Status

The Framework is a voluntary framework to be used for reporting **environmental information** in, or linked to, **mainstream reports**. The Framework is aligned to relevant principles from financial and other reporting standards & frameworks but those organizations have not been consulted on positions taken in the Framework.

## Structure of the Framework

Beyond this introduction, the Framework is organized into three main sections as follows:

**Section II:** Requirements and guidance on what to report about the organization and its environmental requirements and challenges, including:

**A) Information to be used for assessing the current state of the organization:**

- REQ-01** Disclosures shall provide a statement identifying the organization's environmental requirements and the way in which the context in which it operates affects access to and rights over those environmental requirements.
- REQ-02** Disclosures shall present the organization's environmental results for the reporting year.
- REQ-03** Disclosures shall include an analysis of the results compared with performance targets set in a previous period and with results reported in previous years.
- REQ-04** Disclosures shall describe how the organization has directly or indirectly enabled mitigation of and/or adaptation to environmental challenges by third parties.

**B) Information to be used for assessing the business implications of the information reported in Section II part A:**

- REQ-05** Disclosures shall identify and analyze the main current and anticipated risks & opportunities affecting the organization.
- REQ-06** Disclosures shall describe the business implications of the information reported in response to requirements 1–5.
- REQ-07** Disclosures shall describe the organization's future outlook including trends, factors, anticipated risks and opportunities associated with environmental challenges that might affect the organization's strategy business model and future performance.

**C) Information to be used for assessing the organization's strategic response to the information reported in Sections II part A and B:**

- REQ-08** Disclosures shall describe the organization's policies, objectives and strategies in relation to environmental matters.
- REQ-09** Disclosures shall explain the indicators, standards, policies, plans and targets against which environmental performance is assessed.
- REQ-10** Disclosures shall describe the internal governance processes and organizational resources that have been assigned to support the identification, management and governing body oversight of environmental matters.
- REQ-11** Disclosures shall list the internal and external current or prospective actions undertaken in support of the organization's policies, objectives, strategy, targets and plans.

**Section III: Requirements and guidance about the organization’s environmental information reporting practices:**

- REQ-12** Disclosures shall describe the boundary of the organization for which the mainstream report is prepared and state whether that boundary is also used for reporting environmental information.
- REQ-13** Disclosures shall describe the methodology used to calculate and / or determine environmental results reported in response to REQ-02, and the management and control systems used to collect, manage and monitor data that contributes to the calculation of environmental results.
- REQ-14** Disclosures shall list the frameworks, standards, guidelines, protocols, laws and reporting policies used for preparing information reported in accordance with the Framework and shall (except in the first year of reporting) confirm that they have been used consistently from one reporting period to the next.
- REQ-15** Disclosures shall be provided on an annual basis and shall state whether environmental information is reported for the same period covered by the mainstream report.
- REQ-16** Disclosures shall list any restatements that have been necessary to alter previously disclosed results.
- REQ-17** Disclosures shall include a statement of conformance with the requirements of the Framework.
- REQ-18** Disclosures shall explain whether assurance or verification from a third party has been obtained for disclosures made in conformance with all or some of the requirements of the Framework.

**Section IV: The requirements and guidance in Section IV are designed to ensure that environmental information in mainstream reports is useful to investors, is correct and complete and is based on criteria that are suitable for conducting assurance activities. Disclosures shall therefore be:**

- REQ-19** Disclosures shall be relevant.
- REQ-20** Disclosures shall be faithfully represented.
- REQ-21** Disclosures shall be connected with other information.
- REQ-22** Disclosures shall be made on a consistent basis.
- REQ-23** Disclosures shall be presented and communicated so as to make them useful.
- REQ-24** Disclosures shall be material.

## Section II: What to report

### A) Assessing the current state – context, results, performance and leadership

#### Context

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**REQ-01 Disclosures shall provide a statement identifying the organization’s environmental requirements and the way in which the context in which it operates affects access to and rights over those environmental requirements.**

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The reader should come away with a clear understanding of how, why, which and to what extent, environmental elements are required for the organization to create value and how the context within which it operates affects the organization’s access to and rights over environmental elements.

The context within which the organization operates includes macroeconomic trends, legal and regulatory requirements and developments, societal expectations and environmental conditions.

This requirement will be satisfied when disclosures identify the:

- + Organization’s environmental requirements – that is the environmental elements that the organization has to change in order to conduct its principal activities and create value; and
- + Provenance of those environmental requirements, whether from the global commons, purchased, produced or otherwise acquired.

This requirement will be satisfied when disclosures also include information about the way in which the operating context affects the organization’s:

- + Requirements for and dependencies on environmental elements;
- + Access to and rights over environmental requirements, e.g. whether regulatory restrictions apply so as to limit access or restrict rights to emit or discharge (as appropriate) environmental elements;
- + Reputation, for example because of societal expectations about the way in which the organization should use or affect its environmental requirements;
- + Ability to afford inputs of and rights over environmental requirements, for example, because of price volatility or security of supply;
- + Achievement of its strategic objectives.

Unless otherwise disclosed in the mainstream report, disclosures may also include a description of:

- + The organization’s principal activities and business model;
- + The main markets and jurisdictions in which the organization operates.

#### Environmental results

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**REQ-02 Disclosures shall present the organization’s environmental results for the reporting year.**

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Readers should come away with an understanding of the organization’s environmental results. That is the extent to which the organization has changed or caused change to environmental requirements in the reporting period, including the extent to which:

- + Forest commodities have been used or consumed;
- + GHGs have been emitted;
- + Water has been abstracted, used and discharged.

Investors have expressed a particular need for high quality quantitative data to reflect environmental results so that they may use it for benchmarking and analysing risks. Therefore, where available and appropriate, environmental results should be reported in quantitative terms. However results may be expressed in qualitative terms where quantitative information is unavailable.

CDSB does not prescribe rules, methodologies or approaches for the preparation of quantitative environmental results. The Framework relies on existing globally recognised approaches for the preparation of quantitative results. Examples are shown in SG-01 A). REQ-09 requires organizations to disclose the approach they have used.

The following guidance and tables set out the quantitative information that may be reported in respect of environmental requirements. Many organizations already measure and/or disclose their environmental results for purposes other than mainstream reporting. For example GHG emissions may be reported to CDP or in accordance with regulatory requirements. The Framework aims to ensure, as far as possible, that environmental results measured or disclosed for purposes other than mainstream reporting may be used wholly or partly to satisfy the Framework's requirement for the provision of environmental results. We therefore reference relevant content from CDPs climate change, forest risk commodities and water Information Requests and from other reporting frameworks as representing information that should be considered for reporting environmental results, applying the principles in [Section IV](#).

### GHG emissions

Disclosure	Units
Gross GHG emissions	Tonnes CO <sub>2</sub> e
Normalized / intensity GHG emissions metric	Tonnes CO <sub>2</sub> e per m <sup>3</sup> ; tonne; etc.
Scope 1 and 2 breakdown	Tonnes CO <sub>2</sub> e

### Forest risk commodities

Disclosure	Units
Total biofuel usage and/or production	Tonnes / liters / joules
Number of cattle	Heads
Hides usage	m <sup>2</sup>
Beef	Tonnes / m <sup>3</sup>
Total palm oil usage and/or production	Tonnes / liters
Total soy usage	Tonnes / liters
Total timber usage	Units / tonnes / m <sup>3</sup>

## Water

Disclosure	Units
Total withdrawal, discharge, consumption and recycled water	Tonnes / m <sup>3</sup> / liters
Percentage of withdrawals located in water-stressed areas	%
Average withdrawal intensity in water-stressed areas	m <sup>3</sup> / liters
Number of significant water-related compliance violations	Number

## Fossil fuel energy resources

See discussion paper.

## Supporting requirements

In order to satisfy REQ-02, the following supporting requirements shall apply:

### Offsets

When presenting results, no account shall be taken of offsets developed or acquired to mitigate environmental outcomes. Offsets and other mitigating actions can be disclosed under Section C – Strategic Response.

### Disaggregation and categorization

Results shall be disaggregated, categorized or broken down as appropriate where it is likely to aid understanding. For example, results may be categorized by geography, business activity or division, source type, etc.

### Uncertainty

Results shall be accompanied by a description of the main effects of any uncertainty in the calculation of the data, e.g.: data gaps, assumptions, extrapolations, metering / measurement inaccuracies etc.

## Performance

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### **REQ-03 Disclosures shall include an analysis of the results compared with performance targets set in a previous period and with results reported in previous years.**

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The reader should come away with a clear understanding of how the organization’s results for the year (as reported in response to REQ-02) compared with results for the previous reporting period and with performance targets set in previous periods. The organization should explain its results during the period and its position at the end of that period so as to provide readers with insight into the main trends and factors affecting the business.

This requirement will be satisfied when (except in the first year of reporting) disclosures state the targets and baseline and other criteria used for interpreting and assessing results against planned targets within the reporting period. Where the measurement of different environmental requirements started at different times disclosures may appear as “*Base year (GHG emissions)*”, followed by “*Base year (forest risk commodities)*” and “*Base year (water)*”, as appropriate. Detail that makes information useful includes an explanation of the circumstances in which the target base year has been, or may be, re-calculated retrospectively, or where the target base year has been reset.

Except in the first year of disclosure, results should be presented alongside results from the previous reporting period.

The type of comparative analysis that is encouraged includes a description of:

- + Any significant changes to performance or unexpected results against targets that are attributable to changes in the organization’s strategy and governance between reporting periods;
- + Any significant changes to performance attributable to changes in the methodology used for calculating results or to acquisitions, divestments, organic growth or decline, efficiency or process improvements, alterations to processes for collecting data, practices in satellite operations, missing data etc.;
- + Any significant differences in results compared with expectations and targets;
- + 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<sup>31</sup>;
- + Comparative results between reporting periods, for example, changes in GHG emissions results, and the main reasons for the change between reporting periods;
- + Where any changes in standards, policies or organizational boundary have been made, the reason for and effect of the changes should be explained.

See SG-01 Performance for more information.

## Leadership & influence

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### **REQ-04 Disclosures shall describe how the organization has directly or indirectly enabled mitigation of and/or adaptation to environmental challenges by third parties.**

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The reader should come away with an understanding of the way in which the organization contributes to mitigation and adaptation activities by other organizations. For example, disclosures should highlight whether the organization, through its products and/or services, enable environmental mitigation / adaptation / avoidance by others. 

## B) Business implications and analysis

Requirements 5–7 are designed to elicit disclosures that inform readers about management’s understanding of the context in which the organization operates and whether the organization has taken account of potential risks and opportunities and other internal and external implications in the short, medium and long term.

### Risks & opportunities

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#### **REQ-05 Disclosures shall identify and analyze the main current and anticipated risks & opportunities affecting the organization.**

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This requirement will be satisfied when organizations identify and analyze the specific risks and opportunities associated with their environmental requirements and the way in which those risks and opportunities affect the organization’s ability to create value over the short, medium and long term.

See SG-02 Risks & opportunities for more information.

Disclosure is useful when it: 

- + Identifies the principal risks & opportunities that are specific to the organization (rather than a generic list of all possible risks and opportunities), including those that relate to the availability, quality and affordability of environmental requirements in the short, medium and long term and that threaten or support achievement of the organization’s strategic objectives; e.g. identify operating, production and financial assumptions and whether they could be affected by availability of or changes to environmental requirements;
- + Analyzes the actual and potential causes and sources of risks and opportunities associated with environmental requirements, for example:
  - Availability of environmental elements and requirements (including through the supply chain or because of the effects of climate change);
  - Regulation designed to support or limit activity that depends on environmental elements;
  - Relationships on which the organization is dependent for accessing, processing and trading environmental requirements (e.g. utilities, logistics and suppliers);
  - Brand and reputational consequences associated with the ownership, production, use or consumption of environmental elements and requirements;
  - Whether any of the organization’s environmental requirements is on a “critical list” such as the EU14 critical raw materials list<sup>32</sup>;
  - Whether any of the organization’s environmental requirements are subject to known limits, e.g. planetary boundaries, limits identified by organizations such as Carbon Tracker etc.
- + Describes or references other parts of the mainstream report that describe the organization’s processes and systems for identifying risks and opportunities, for example, whether inventory, operations and supply chains have been audited to identify licenses, rights, assets and relationships that might strengthen or weaken the organization’s access to environmental requirements;
- + Explains 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.;

- + Explains the timeframes over which risks and opportunities are assessed and estimates when they are expected to materialize;
- + Identifies the products, services, markets and geographical areas that are likely to be affected;
- + Explains how the effect of changes to environmental elements (for example climate change) causes risks and opportunities and how those might, in turn, affect the organization;
- + Discloses whether any penalties relating to environmental matters have been imposed on the organization.

Plans for managing risks and opportunities should be discussed in response to requirements in [Section II C](#).

## Business implications – internal and external

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### **REQ-06 Disclosures shall describe the business implications of the information reported in response to requirements 1-5.**

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This requirement will be satisfied when disclosures describe the implications of the information reported in response to requirements 1-5 that have the greatest potential to affect the organization's ability to create value and carry out its strategy in the short, medium and long term. For example:

- + Whether the context in which the organization operates, trends in its performance and results or risks and opportunities suggest that the organization will not be able to achieve or will exceed its strategic objectives;
- + What are the most important environmental challenges facing the organization and how they affect the organization's strategy, economic performance and prospects;
- + Whether the organization's consumption or use of environmental requirements threatens future availability of environmental elements for itself or others;
- + How the risks and opportunities identified in response to requirement 5 affect the organization's financial operations, cash flows, capital requirements and financial condition. Environmental information should complement and supplement financial statements by placing related financial information in context;
- + How implications are modeled, for example, using scenario analysis and over what timescales;
- + Whether the context in which the organization operates, trends in its performance and results or risks and opportunities limit or support the organization's capacity to innovate;
- + Whether the implications affect the organization's capital expenditure decisions and forecasts and if so how.

Disclosures should include an explanation of the process used by the organization for identifying those implications that are most likely to affect the organization's ability to achieve its strategic objectives and the results of that process, in particular which issues were identified.

Disclosure is useful where it:

- + Provides quantified indications of how the implications will affect the organization in terms of financial results, capital expenditure, achievement of strategic objectives, staffing capacity and so on;
- + Identifies whether the implications will affect the organization alone or other parties including suppliers and customers.

## Future outlook

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**REQ-07 Disclosures shall describe the organization’s future outlook including trends, factors, anticipated risks and opportunities associated with environmental challenges that might affect the organization’s strategy business model and future performance.**

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Disclosures<sup>33</sup> should look to the present, past and future and should communicate trends and factors relating to environmental elements and requirements that are likely to affect the organization’s future performance, position and development. Adopting a strategic focus and future orientation includes clearly articulating how the continued availability, quality and affordability of environmental requirements contributes to the organization’s ability to achieve its strategic objectives in the future.

This requirement will be satisfied when disclosures include information about the future outlook, long and short term, including trends and factors related to environmental challenges that are likely to affect managements view of the organization’s strategy or the timescales over which achievement of the strategy is typically planned.

Information about the future outlook is 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 regarding environmental elements and requirements and the organization’s assessment of its longer term objectives and strategies;
- + It describes, or refers to parts of the mainstream 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 and cost of savings derived from the mitigation of or adaptation to environmental challenges that could materially affect the growth, future earnings and/or direction of the organization.

## C) Strategic response – strategy, objectives, targets, plans and action

Requirements and guidance on disclosures about the organization’s strategic response to environmental challenges are designed to enable investors to understand and evaluate the strategies adopted by the organization, the governance processes and targets in place to manage them and the likelihood that those strategies, processes and targets will be successful. Disclosure is most useful when it highlights the linkages between corporate strategies, financial performance and environmental performance.

### Policies, governance and targets

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#### **REQ-08 Disclosures shall describe the organization’s policies, objectives and strategies in relation to environmental matters.**

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This requirement will be satisfied when management describes the organization’s policies, objectives and strategies relating to environmental matters in a way that enables readers to understand the priorities for action and how they relate to the information disclosed in Sections A and B above, as well as identifying the internal resources that are to be devoted and managed to deliver the strategy and results.

Disclosures should:

- + Explain the organization’s policies, strategy and objectives in relation to environmental matters;
- + Identify and explain any significant changes to the organization’s objectives and strategies from the previous period;
- + Outline the organization’s policies, objectives and strategy for mitigation of and adaptation to risks identified in response to REQ-05;
- + Explain whether the strategy is influenced by participation in a trade association and/or sustainability initiative, or regulatory scheme designed to protect the environment;
- + Explain whether the organization’s policies, objectives and strategy on environmental matters are designed to provide environmental, economic, social or cultural benefit to the organization alone and / or others, and if so elaborate.

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#### **REQ-09 Disclosures shall explain the indicators, standards, policies, plans and targets against which environmental performance is assessed.**

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This requirement will be satisfied when disclosures describe the nature, scope and details of the specific plans, programs, management systems, goals, targets and key performance indicators in place to manage and monitor risks, opportunities, performance etc. in relation to environmental matters, including the timescales and investments applicable to those plans and the way in which the plans are managed. See SG-01 B) Characteristics of useful key performance indicators for more information.

Detail that makes information useful includes:

- + The nature of the plans (e.g. whether they involve reductions, efficiencies, diversification, managing reliance on environmental inputs, etc.);
- + Environmental targets (where set) including:
  - the type of target, whether absolute or intensity-based;
  - the timescales over which the company aims to achieve the target;

- + Details of other goals that have been set under the plans and the key performance indicators against which those goals will be evaluated;
- + Details of the organizational boundary and the activities and/or sources to which the plans apply.

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**REQ-10 Disclosures shall describe the internal governance processes and organizational resources that have been assigned to support the identification, management and governing body oversight of environmental matters.**

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Emerging best practice indicates that successful environmental policies require the support and leadership of an organization's Board or highest governing body. This requirement is designed to promote transparency about and accountability for the organization's oversight of environmental matters.

This requirement will be satisfied when disclosures:

- + Identify the CEO / senior executive / named officer / board committee responsible for environmental matters. This may include a concise statement from them on their responsibility for environmental matters; and
- + Explains:
  - How responsibility for environmental information is delegated and how executives are held accountable and / or incentivized for implementation of the organization's policies;
  - The nature and reliability of the underlying information and control systems used by the board to track environmental information and provide related disclosures;
  - Whether the organization's environmental information is subject to the same governance processes and disclosure controls and procedures as are used for financial and other information in mainstream reports.



## Management actions

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**REQ-11 Disclosures shall list the internal and external current or prospective actions undertaken in support of the organization's policies, objectives, strategy, targets and plans.**

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This requirement will be satisfied when management describes the tangible actions it has taken internally and externally in support of the organization's environmental policies, objectives, strategy, targets and plans. These are effective only insofar as they drive meaningful change at operational levels. Actions may include:

- + Seeking investment;
- + External engagement;
- + New or changed management practices;
- + Monitoring and measuring systems, practices and approaches;
- + Employee awareness and training;
- + Innovation;
- + Partnerships;
- + Recruitment;
- + Engagement in trade associations or public policy advocacy.

## Section III: About your report

Section III contains requirements and guidance about your reporting practices relating to environmental information in mainstream reports. The requirements are designed to encourage a harmonized approach to the preparation of environmental information disclosures that:

- + Complement and supplement financial statements;
- + Provide transparent and consistent environmental information over time that enables comparisons to be made year on year and between organizations.

### Boundaries

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**REQ-12 Disclosures shall describe the boundary of the organization for which the mainstream report is prepared and state whether that boundary is also used for reporting environmental information.**

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Disclosures shall be made for the organization or corporate group for which the mainstream corporate report is prepared. For corporate groups, mainstream reports are generally prepared for the entities included in the consolidated financial statements in accordance with the relevant accounting framework.

Where regulatory requirements take precedence over this Framework's requirements or where boundaries for results are determined by reference to other standards and frameworks, disclosures should clearly state the regulatory requirements or standards used for preparing information.

Organizational boundary setting for reporting purposes is being dealt with in a parallel consultation and readers are asked to refer to [www.cdsb.net/consultation](http://www.cdsb.net/consultation) for further information about the discussion papers.

### Basis of preparation & presentation

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**REQ-13 Disclosures shall describe the methodology used to calculate and / or determine environmental results reported in response to REQ-02, and the management and control systems used to collect, manage and monitor data that contributes to the calculation of environmental results.**

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This requirement will be satisfied when management reports the methodology(ies) used to calculate results reported in response to REQ-02 and the controls and systems used to collect and manage data used to calculate results.

In accordance with its aim to align requirements with existing standards, practices and regulatory requirements and recognizing that organizations wish to use the approaches most suitable for their industry / circumstances, the Framework does not specify rules for the calculation of environmental results or for the management and control of data. Rather, this Framework relies on recognized schemes for the calculation of environmental results and management and control of underlying data, examples of which may be found in SG-01 A) Methodologies, tools and guidance to prepare environmental results.

## Reporting policies

**REQ-14 Disclosures shall list the frameworks, standards, guidelines, protocols, laws and reporting policies used for preparing information reported in accordance with the Framework and shall (except in the first year of reporting) confirm that they have been used consistently from one reporting period to the next.**

Whereas REQ-13 refers to methodologies and approaches used to calculate results reported in response to REQ-02, REQ-14 refers to frameworks, standards, guidelines etc. used for mainstream reporting more generally and other than for the purposes of calculating environmental results. For example, where disclosure of environmental information has been influenced by regulatory, industry-specific or financial frameworks, standards, guidelines etc. the relevant provisions should be described for the purposes of satisfying this requirement, together with a statement confirming that they have been used consistently from one reporting period to the next.

## Frequency of reporting

**REQ-15 Disclosures shall be provided on an annual basis and shall state whether environmental information is reported for the same period covered by the mainstream report.**

The purpose of this requirement is to ensure that information is made available to readers on a timely basis, at least once a year, before the information loses its capacity to influence decisions.

This requirement will be satisfied when environmental information is reported on an annual basis for the same period covered by the mainstream financial report, or for a period of 12 months ending in that period. Where information prepared under regulatory requirements is used to make disclosures under this Framework 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.

## Restatements

**REQ-16 Disclosures shall list any restatements that have been necessary to alter previously disclosed results.**

The circumstances in which a restatement or correction might be required include:

- + Changes to the base year used for monitoring environmental results against targets;
- + Discovery of errors in previous disclosures;
- + Changes in policies or methodologies that affect an understanding of performance over time.

## Compliance

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### **REQ-17 Disclosures shall include a statement of conformance with the requirements of the Framework.**

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In order to assert conformance with the Framework, an organization must apply the requirements set out in the Framework when determining, preparing and presenting environmental information. In cases where full conformance has not been possible because of the organization's particular circumstances, (e.g. because information is unavailable or unreliable or specific legal prohibitions apply or disclosure could cause competitive harm), 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.

## Assurance or verification

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### **REQ-18 Disclosures shall explain whether assurance or verification from a third party has been obtained for disclosures made in conformance with all or some of the requirements of the Framework.**

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By providing environmental information in mainstream reports, 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. Generally, the financial statements auditor is required to read the information accompanying audited financial statements to identify any significant inconsistencies between it and the audited financial statements and to consider any observed significant misstatements of fact in those disclosures. This minimum level of auditor involvement ordinarily results from including environmental information in mainstream reports.

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

- + International Standards on Assurance Engagements (ISAE) 3000<sup>34</sup> or 3410<sup>35</sup>;
- + AccountAbility AA1000 Assurance Standard<sup>36</sup>.

## Section IV: How to report

The requirements in Section IV are designed to ensure that environmental information in mainstream reports is useful to investors, is correct and complete and is based on criteria that are suitable for conducting assurance activities. The requirements in Section IV shall be applied in determining, preparing and presenting all disclosures made in accordance with the requirements of the Framework.

### Sources that inform the requirements in Section IV

The Framework draws on other reporting frameworks and standards that specify characteristics or principles on which reporting outcomes should be based. The Framework draws on the sources listed in Section I (B) and also:

- + The qualitative characteristics of useful financial reporting information set out in the IASB’s Conceptual Framework for Financial Reporting. Based on the experience of its Board members, CDSB has adapted the IASB’s qualitative characteristics of useful financial information for application to disclosure of environmental information;
- + The Greenhouse Gas Protocol’s associated regional program protocols;
- + The Global Initiative for Sustainability Ratings’ “*Sustainability Principles Comparison*” which compares principles adopted by GRI, IIRC, SASB, Arista 3.0, the UNPRI, The Natural Step, Natural Capitalism Principles, Earth Charter Principles and Corporation 20/20 Principles.

The requirements in Section IV are that disclosures made in response to REQs 01-18 shall be:

- + Relevant
- + Faithfully represented
- + Connected with other information
- + Consistent
- + Presented and communicated so as to make them useful
- + Material

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#### **REQ-19 Disclosures shall be relevant.**

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The purpose of the requirement is to encourage organizations to apply judgment so as to identify the environmental information that is most important and relevant for disclosure in the mainstream report, subject to and taking into account all of the requirements of the Framework and the needs of investors, management and regulators.

Information is relevant if it:

- + Is capable of making a difference to the decisions of users of information, including where:
  - it has value as an input to predictive processes used by investors to inform their own expectations about the future . This includes 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;

- it has confirmatory value, that is, where it confirms or changes past or present expectations based on previous evaluations.
- Reflects the information that is important to management in managing the business and assessing how environmental matters actually or potentially affect the organization's strategy;
- Takes account of the specific requirements of the Framework;
- Complies with mainstream corporate requirements or compliance requirements on the disclosure of environmental information;
- Reflects the reality of the organization's business;
- Promotes an understanding of how the organization's environmental results and policies contribute to its financial condition;
- It covers subject matter about environmental requirements as identified in response to REQ-01.

Generally, the information that is important to the organization in managing the business is the same information that is important to users of mainstream corporate reports for assessing the organization's financial performance, prospects and achievement of its strategy. This in turn is likely to involve an assessment of issues considered in response to requirements in Section II including:

- + The principal risks and opportunities associated with the environment that threaten or support achievement of the organization's strategic objectives;
- + The actual and potential impacts of environmental matters, including their effect on:
  - Resource availability;
  - Relationships on which the organization is dependent (e.g. suppliers);
  - The organization's capacity to innovate;
  - Brand and reputational consequences;
  - The organization's financial operations, cash flows and financial condition.

Various factors indicate the relevance of environmental 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.

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#### **REQ-20 Disclosures shall be faithfully represented.**

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The purpose of the requirement is to ensure that information is complete, neutral and free from material error as these are the characteristics of faithful representation.

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.

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. Environmental information 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 environmental information 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 environmental information is, by definition, capable of influencing users' decisions.

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.

Environmental information disclosures are generally made under conditions of uncertainty and may be based on estimates and management's judgment. Therefore, in the context of environmental information disclosure, faithful representation does not imply total freedom from error. However, faithful representation of information may be achieved by ensuring that sufficient evidence is available to support disclosures and that 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. Therefore, in order to attain faithful representation, it may sometimes be necessary to disclose explicitly the degree of uncertainty in the reported information.

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. 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 users 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.”

This requirement will be satisfied when disclosures report on information which is incomplete, or has been prepared under conditions of uncertainty, and the nature and degree of omissions / errors / uncertainty is clearly explained in the statement of conformance REQ-17 in qualitative or quantitative terms. While environmental information disclosure practices and standards are developing, the Framework recognizes that not all relevant information can be completely disclosed in such a way that is free from error.

In the case of the unavailability of reliable information or specific legal prohibitions, the organization should:

- + Indicate the nature of the information that has been omitted;
- + Explain the reason why it has been omitted;
- + In the case of the unavailability of data, identify the steps being taken to obtain the information and the expected time frame for doing so.

**REQ-21 Disclosures shall be connected with other information.**

Environmental information and other information used and reported by the organization is connected where:

- + The information that the organization uses internally for decision-making purposes about the company’s strategy, goals and objectives is connected with information that is provided externally to investors for decision-making<sup>37</sup>;
- + Environmental information complements and supplements financial statements in order to place related financial information in context;
- + Information is reported in a place and in such a way as to explain the links between the organization’s strategy and environmental matters;
- + Information is useful when it tells investors “*the story of how managing environmental issues helps the company to increase sales, lower costs, smooth cash flow, boost brand value and strengthen risk management*”<sup>38</sup>, and when it shows the “*linkages between corporate environmental strategies, financial performance and environmental results*”<sup>39</sup>.

**REQ-22 Disclosures shall be made on a consistent basis.**

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.

Comparability 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.

In the early years of its adoption, CDSB is aware that comparability of environmental information provided under the Framework 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 the consistency of approach to reporting of environmental information 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.

**REQ-23 Disclosures shall be presented and communicated so as to make them useful.**

This depends on disclosures being:

- + Clear and straightforward:
  - Analysis is encouraged that gives insight into the organization’s past performance and future prospects as used by management to manage the business;
  - Organizations are encouraged to focus on the most important environmental information through application of the Framework’s requirements;

- Disclosures should be consistent with associated financial statements and other information in mainstream reports.
  - Understandable;
  - Understandability is enhanced when environmental information is classified, characterized and presented clearly and concisely. However, information that is relevant should not be excluded from mainstream reports solely because it may be too complex or difficult for some users to understand without assistance. Plain language should be used wherever possible although technical terminology with appropriate explanation should be used where relevant to an understanding of environmental information.
- + Verifiable;
- Verifiable information is characterized by supporting evidence that provides a clear and sufficient train from monitored data to the presentation of environmental information. Verifiable information needs 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. 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 approach has been taken without material error or bias. Sufficient information must be provided in disclosures 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.

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#### **REQ-24 Disclosures shall be material.**

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Disclosures are material when:

- + They contain relevant information (see REQ-19), that is:
- + They are complete, but free from immaterial clutter and unnecessary or duplicative detail that obscures major trends and events and that is specifically relevant to the environment reporting organization;
- + IASB states<sup>40</sup> 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. Therefore the following are discouraged:
  - Standard formulations that reiterate financial information without analysis;
  - Generic disclosures that do not relate to the specific practices and circumstances of the disclosing organization;
  - 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.

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. As 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.

For the purposes of the Framework, the characteristic of materiality aims to provide a “*workable filter on information, allowing investors to see major trends and significant events*”<sup>41</sup> related to environmental matters that affect or have the potential to affect the company's financial condition and/or its ability to achieve its strategy.

It is impossible to specify a uniform quantitative threshold at which information becomes material<sup>42</sup>. Similarly, the Framework does not prescribe a quantitative test or standard to identify what is material in the context of environmental information 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*”<sup>43</sup>. In the case of environmental matters, 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.

In cases where a legislator or policy maker has issued guidance on the determination of materiality in non-financial reporting<sup>44</sup> or management commentary, such guidance takes precedence over the Framework, although the Framework aims to be compatible with all such issued guidance that addresses materiality.

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<sup>45</sup>. When in doubt, management should err on the side of caution and provide a suitable disclosure about any uncertainty.

## Section V: Supplementary Guidance

The supplementary guidance in this section is provided for the convenience of practitioners and other professionals who are responsible for planning, developing, implementing, managing and communicating environmental information. A number of disclosure tools, standards, methodologies and guidance is referenced, however, the Framework does not endorse or recommend any individual one but recognizes them as complementary. Each reporting organization should determine what its objectives and requirements are before assessing which one or more approaches to take. The information is not intended to be exhaustive or complete; rather it is a snapshot of what is current practice in 2014.

### Supplementary guidance for Framework requirements

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#### SG-01 Performance

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#### SG-01 A) Methodologies, tools and guidance to prepare environmental results

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

##### GHG emissions

Global methodologies:

- + ISO 14064 greenhouse gas accounting and verification<sup>46</sup>;
- + The Greenhouse Gas Protocol: A corporate accounting and reporting standard (Revised Edition) developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD)<sup>47</sup>. National and regional programs based on the GHG Protocol include:
  - Mexico GHG Program<sup>48</sup>;
  - The Philippine GHG Accounting & Reporting Program (PhilGARP)<sup>49</sup>;
  - China Corporate Energy Conservation and GHG Management Program<sup>50</sup>;
  - Brazil GHG Protocol Program<sup>51</sup>;
  - India GHG Inventory Program<sup>52</sup>;
  - The Climate Registry’s Voluntary Reporting Program<sup>53</sup>.

National methodologies:

- + UK DEFRA guidelines – “*Guidance on how to measure and report your GHG emissions*”<sup>54</sup>.

Industry specific guidelines based on the GHG Protocol including:

- + International Petroleum Industry Environmental Conservation Association (IPIECA) guidelines for reporting GHG emissions<sup>55</sup>;
- + The Aluminum Sector GHG Protocol<sup>56</sup>;
- + The Cement CO<sub>2</sub> Protocol: CO<sub>2</sub> Accounting and Reporting Standard for the Cement Industry<sup>57</sup>.

## Forest risk commodities

- + IPIECA Biofuels and water nexus: guidance document for the oil and gas industry<sup>59</sup>;
- + Roundtable on Sustainable Biomaterials (RSB) guidelines and GHG calculator<sup>59</sup>;
- + United Nations Food and Agriculture Organization (FAO) climate change guidelines for forest managers<sup>60</sup>.

## Water

Voluntary methodologies:

- + Convention on Biological Diversity (CBD) Integrated Water Resources Management Toolbox<sup>61</sup>;
- + CDP water information request & guidance<sup>62</sup>;
- + CEO Water Mandate<sup>63</sup>;
- + Ceres Aqua gauge<sup>64</sup>;
- + FAO AQUASTAT<sup>65</sup>;
- + Global Environmental Management Initiative (GEMI) Local Water Tool<sup>66</sup>;
- + GRI G4<sup>67</sup>;
- + PwC Efficient Supply Chain Emissions Reporting (ESCHER) tool<sup>68</sup>;
- + United Nations Environment Programme (UNEP) Life Cycle Initiative<sup>69</sup>;
- + UNEP Vital Water Graphics<sup>70</sup>;
- + Veolia water impact index<sup>71</sup>;
- + Water Footprint Network (WFN) Water footprint assessment tool<sup>72</sup>;
- + WBCSD Global Water Tool (GWT)<sup>73</sup>;
- + WBCSD Water for Business<sup>74</sup>;
- + WRI Aqueduct<sup>75</sup>;
- + WULCA life cycle initiative<sup>76</sup>;
- + WWF Water Risk Filter<sup>77</sup>.

## SG-01 B) Characteristics of useful key performance indicators

Quantitative indicators, such as key performance indicators (see REQ-09), can help increase comparability and are particularly helpful in expressing and reporting against targets. Common characteristics of suitable quantitative indicators may include that they are:

- + Relevant to the circumstances of the organization;
- + Consistent with indicators used internally by management;
- + Connected (e.g., they display connectivity between financial and other information);
- + Focused on the matters identified by the organization as being relevant and material;
- + Presented with the corresponding targets, forecasts or projections for two or more future periods;
- + Presented for multiple periods (e.g. three or more periods) to provide an appreciation of trends;

- + Presented against previously reported targets, forecasts or projections for the purpose of accountability;
- + Consistent with generally accepted industry or regional benchmarks to provide a basis for comparison;
- + Reported consistently over successive periods, regardless of whether the resulting trends and comparisons are favorable or unfavorable;
- + Presented with qualitative information to provide context and improve meaningfulness. Relevant qualitative information includes an explanation of:
  - Measurement methods and underlying assumptions;
  - The reasons for significant variations from targets, trends or benchmarks, and why they are or are not expected to reoccur.

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## **SG-02 Risks & opportunities**

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### SG-02 Identifying risks & opportunities in disclosures

#### GHG emissions

This section draws on guidance about disclosure of risks and opportunities from regulators and leading reporting initiatives including:

- + CDP annual information request<sup>78</sup>;
- + World Resources Institute through their development of the Greenhouse Gas Protocol<sup>79</sup> and associated national and regional programs;
- + International Organization for Standardization's guidance on the quantification and reporting of GHG emissions and removals, ISO 14064<sup>80</sup>;
- + Ceres Global Framework for Climate Risk Disclosure<sup>81</sup>;
- + Global Reporting Initiative G4 Guidelines<sup>82</sup>;
- + U.S. Securities and Exchange Commission (SEC) 2010 interpretive guidance on disclosure of climate risk<sup>83</sup>.

When setting out to consider risks and opportunities in relation to GHG emissions, it should be emphasized that environmental information related risks & opportunities are potentially wide-ranging, direct or indirect (e.g. affecting markets and supply chain); and can include:

- + 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;
- + Knock-on effects in other parts of the economy, e.g. utilities, transport and infrastructure.

Other risks and opportunities: GHG emissions

- + 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.

### Forest risk commodities

When setting out to consider risks & opportunities in relation to forest risk commodities a number of specific questions may be considered as a starting point when addressing this requirement, including:

- + Has the organization assessed the resilience of its supply chain to cope with environmental challenges?
- + Have the organization's suppliers undertaken a similar assessment of risks / opportunities as the organization?

Commodities, which may be sourced, directly or indirectly from recently deforested land represents risk for business. Risks & opportunities linked to forest commodities are wide ranging and can include:

- + Regulatory risks & opportunities associated with each commodity:
  - Product certification and standards;
  - National regulation;
  - International agreements;
  - Sector guidance.
- + Reputational risks & opportunities (business to consumer / business to business);
- + Operational:
  - Purchasing at risk from physical impacts of climate change;
  - Price volatility;
  - Traceability / legality certainty of raw materials ;
  - Cost;
  - Security of supply;
  - Competing uses e.g. Biofuels instead of wood products;
  - Litigation risks and opportunities.

Additional considerations when addressing these requirements include:

- + Has the organization established a full traceability of its total supply chain and product distribution network?
- + Are systems in place, or are systems being put in place, to identify and trace the point of origin of each commodity used by the organization?
- + Is the organization working with its suppliers on these issues?
- + Has the organization undertaken a risk assessment of the forest risk commodities covering financial and operational deforestation risk?
- + Has the organization identified and assigned a risk rating for each commodity, explaining the choice?
- + Has the organization assessed its dependency and / or reliance on its supply chain and identified measures to cope with supply chain challenges?

Other risks and opportunities: Forest risk commodities

Aside from those identified above, the organization should consider if there are other risks and opportunities to consider. For example, regulatory risks and opportunities that may arise from current and / or expected regulatory requirements, including known or expected effects of participation in voluntary sector initiatives, or how the evolution of sector specific / national / global regulations may affect the organization's business model.

Other considerations: Forest risk commodities

In the absence of international agreement on undertaking forest risk commodities risk assessment, identify the approach, scope, scale, criteria, methodology, tools, data and other relevant information used for each commodity.

## Water

When setting out to consider risks & opportunities in relation to water risks & opportunities, the organization will need to prepare a detailed analysis of its own water use context. In turn this may require understanding of activities far down the supply chain, with contractors / sub-contractors in numerous countries, often beyond the organization's influence.

In the absence of international agreement on undertaking a water risk assessment, identify the approach, scope, scale, criteria, methodology, tools, data and other relevant information used.

Specific questions to consider when addressing this requirement include:

- + Does the organization have a full and detailed understanding of its water use? This includes analysis of river basins, water catchment, regions with high water risk / water stress, etc. and the proportion of goods / services located or obtained from such regions?
- + Are systems in place, or are systems being put in place, to identify and trace the water use by the organization?
- + Does the organization have a plan to manage facilities, premises or operations exposed to high water risk?
- + Does the organization compare water use in water stressed basins on an annual basis?
- + Is the organization working with those in its supply chain identified as operating in at-risk basins?
- + Have the organization's suppliers undertaken a similar assessment of risks / opportunities as the organization?
- + Has the organization experienced any water challenges to date and what were its impacts and outcomes – operational, financial, reputational, regulatory, physical, or otherwise? Other risks & opportunities: Water

Aside from those identified above, the organization should consider if there are other risks and opportunities to consider. For example, regulatory risks and opportunities may arise from current and / or expected regulatory requirements including known or expected effects of participation in voluntary sector initiatives, or how the evolution of sector specific / national / global regulations may affect the organization's business model. Physical risk from water challenges has the potential to cause significant problems from an operational and business perspective. Meanwhile, reputational risk may be significant secondary consequence within an organization's supply chain, peers, customers and other stakeholders.

## Section VI: Appendix

### A) Acronyms

CBD	United Nations Convention on Biological Diversity
CDP	Formerly Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
Ceres	Coalition for Environmentally Responsible Economies
CFCs	Chlorofluorocarbons
CH <sub>4</sub>	Methane
CO <sub>2</sub>	Carbon dioxide
EU	European Union
GEMI	Global Environmental Management Initiative
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
GRI G4	Global Reporting Initiative's G4 Guidelines
GWh	Gigawatt Hour
HCFCs	Chlorofluorocarbons
HFCs	Hydrofluorocarbons
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IPIECA	International Petroleum Industry Environmental Conservation Association
ISAE	International Standards on Assurance Engagements
ISO	International Organization for Standardization
NF <sub>3</sub>	Nitrogen trifluoride
N <sub>2</sub> O	Nitrogen Dioxide
OECD	Organisation for Economic Co-operation and Development
PFCs	Perfluorocarbons
PRI	Principles for Responsible Investment
RSB	Roundtable on Sustainable Biomaterials
SASB	Sustainability Accounting Standards Board
SF <sub>6</sub>	Sulphur Hexafluoride
UK DEFRA	UK Department of Environment Food and Rural Affairs
UN	United Nations
UNEP	United Nations Environment Programme
UN FAO	United Nations Food and Agriculture Organization
U.S. SEC	US Securities and Exchange Commission
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

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