

The Climate Disclosure Standards Board

Report on public consultation about CDSB's Reporting Framework

CDSB's draft Reporting Framework was released for public consultation in May 2009 and the consultation phase ended on 31 October 2009. Responses can be viewed on CDSB's website www.cdsb-global.org. This report summarises the main points arising from the consultation¹. Details of CDSB's response and planned activities are set out in its 2010 work plan, which is also available on CDSB's website.

CDSB is grateful for the detailed and thoughtful responses submitted by a range of stakeholders in response to its public consultation. Twenty five responses were received, two organisations asked for their responses to be kept confidential. Strong support was expressed for the leadership shown by CDSB in seeking to understand and harmonise climate change-related reporting² standards. The draft Reporting Framework was welcomed as "essential" for consensus building and the development of greater comparability, consistency, transparency and simplicity. Certain clear themes emerged from the consultation and these themes inform CDSB's future work plans.

CDSB has given equal weight to all comments received. This report does not provide a quantitative review of the comments received. Comments made by individual consultees are included to illustrate certain points, but this report represents a neutral discussion of the responses received. An overview of responses is included in CDSB's December 2009 "Copenhagen Update" available on CDSB's website.

CDSB welcomes input and discussion on its work. If you would like to comment on or participate, please contact info@cdsb-global.org.

¹ This summary represents CDSB's understanding and interpretation of the comments made by respondents. Actual responses are available on CDSB's web-site www.cdsb-global.org.

² Climate change-related reporting in this context means the disclosure by corporations of information on risks and opportunities related to climate change, strategies employed to respond to those risks and opportunities and Greenhouse Gas (GHG) emissions.

Reactions to CDSB's approach

There was unanimous support for the **development of a single global unified framework for climate change-related reporting** so as to address the global problem of climate change with a global solution.

"The sooner the CDSB Reporting Framework can be agreed, the better as this reduces the extent to which different standards become established in different jurisdictions" (Swire)

However, the scope and scale of CDSB's objectives were recognised as being very ambitious. Two respondents said that the long term success of the Reporting Framework would depend upon clear demand for the proposed disclosures from the investment community and its successful adoption and application by reporters evidencing that it is both practical and beneficial.

CDSB's **reliance on work that has already been done** was very positively received.

A particularly positive feature of the framework is that it "... builds on the existing work of its Board members, including the CDP. Too often, exercises such as this start afresh rather than building on what is good". (Atkins).

However, in order to minimize reporting burdens, cost and effort, it was noted that the Reporting Framework must complement, but not duplicate information captured and reported for other established voluntary and mandatory purposes.

CDSB's **alignment to the financial reporting model** received strong support.

"[it]...helps to increase proximity of GHG reporting to director's fiduciary duties" (E&Y)

"The key strength of CDSB's work is to make the explicit link between financial and environmental reporting standards..." (DEFRA)

However, advice from the consultation encourages CDSB to:

- Guard against established principles **restricting innovate thinking**.
- Adapt the guiding principles to apply **more specifically to climate change** referring to standards specifically aimed at GHG reporting, such as the ISO 14064 series and similar.
- Explain more directly **what kinds of information are needed to achieve decision-usefulness**, possibly using a table in which the generic guiding principles appear in one column with the corresponding application to climate disclosure in a second column.
- Be realistic about **consistency** between reporting periods while companies adapt and amend their approaches to determine the best method of calculation. Furthermore, the implications of acquisitions, divestments, changing emission factors and organic growth need to be taken into account in defining how consistency may be achieved. One specific proposal is that emissions from an acquired company should be incorporated into the corporate group disclosures only after one

complete year of separate reporting according to the same standards as the group.

- Work to resolve the **tension between the uncertainty inherent in GHG measurement and the principle of faithful representation**. The relationship between uncertainty and reduction targets (where for example, the uncertainty of the inventory is 10% and the reduction target is 5%) was also highlighted. Some respondents suggested that companies should be encouraged specifically to risk assess and disclose the degree of uncertainty/confidence in their results, possibly by reference to a metric to quantify the degree of uncertainty associated with GHG emissions results.
- Investigate and explain **differences between financial and GHG accounting consolidation/boundary approaches and the circumstances in which companies should report on multiple consolidation bases**. The variation in the approaches that companies may apply to determining the boundary of their reporting organisation was identified as one of the main barriers to comparability and for that reason, one respondent suggested that a separate section of the Reporting Framework should be devoted to boundaries. Although there was some support for CDSB's recommendation that the financial control approach should be used to prevent selective reporting and encourage consistency, others noted that this is at variance with the requirements of many regulatory schemes to report at facility level. Furthermore, the financial control approach means that emissions from certain leasing and outsourcing arrangements may not be reported.

General support was expressed for the Reporting Framework's **principles-based approach**. Flexibility and balance between rules and principles was identified as being important. However, the need for comparability and consistency is also important and a number of respondents felt that the CDSB Reporting Framework is too generic and not prescriptive enough to achieve comparability as currently drafted.

"Ordinarily...we would advise a market-led evolutionary process to give companies time to familiarise themselves with the requirements of the framework. ...[however]..the rate of change to our climate and inevitable implications means that a more direct, prescriptive and expedient way to implement the framework should be considered by the Board..These are exceptional circumstances which call for exceptional means..". (E&Y)

Some consultees said that a **cost-benefit analysis** is essential in order to evidence the value/benefit of climate change-related disclosures and to assess the costs to various industries. A number of respondents said that CDSB must include the constraining principle of cost in its guiding principles and highlighted the significant costs they anticipate for setting up systems for collection and monitoring of data.

Support was expressed for CDSB's aim to **align the interests of users and preparers of information**. However, CDSB was encouraged to facilitate greater discussion between the parties in order to reflect their respective views more clearly in the Framework.

Practicalities and implications of mainstreaming climate change information

General

Generally, respondents supported CDSB's aim to create a standard that is suitable for disclosure of climate change-related information in mainstream reports. However, responses highlighted various matters that require resolution before that aspiration can be realised as well as the need to balance demand for mainstream reporting with understanding of the complexities, costs and potential volume of disclosure, the respective needs of preparers and data-users and the degree to which climate change thinking is embedded in the reporting organisation.

"..we do not think that a decision on whether these disclosures should be mandatory...can be taken until [a] cost-benefit analysis is..performed..". (Deloitte)

Respondents supported CDSB's aim that the Reporting Framework should complement and/or supplement national/regional regulation and protocols, although it was noted that the speed with which national regulation is being introduced makes that a difficult task and that local regulators will themselves need time to build a mutual reliance and reciprocity towards international standards.

Placement of information

CDSB was invited to reconsider whether the Management Commentary is the most suitable place for reporting under its Framework. There was a fairly even split of reactions from those that favour inclusion of the information in the Management Commentary, those that support a separate climate change report as an addendum to the annual report and those that favour limited discussion of high level strategic information and important performance measures in the Management Commentary based on information compiled in a separate climate change report. One respondent suggested that CDSB should examine the approach taken by the Australian Water Board in their Water Accounting Framework as an alternative way of proceeding.

Management of volume and detail of information

Concerns were expressed about the level of detail potentially required in response to the CDSB Framework and how this could be managed through already overloaded mainstream reports. Respondents called for climate change reporting to be proportionate with other forms of disclosure required by stakeholders and warned against information requirements that might lead to boiler plate reporting. The main points to emerge were that CDSB should:

- Consider specifying minimum reporting requirements;
- Provide more guidance on the application of the guiding principles and expectations of users so as to help companies assess which disclosures are most relevant and material to them;
- Provide more guidance about reporting on risk, particularly physical risk, referencing the work of UNFCCC and possibly looking in the long term to provide context using Geographical Information Systems; and
- Examine where there is actual or potential overlap with other types of risk reporting in mainstream filings.

"the essential complexity of climate change information, the lack of consensus about climate change impacts will make it very challenging for companies to find the appropriate measure for meaningful disclosure." (AICPA)

Reporting period

Given that many GHG inventory schemes require information to be prepared on a calendar year basis, CDSB was urged to consider the relative merits of adopting this approach and reconciling as far as possible the reporting period and timing of verification with regulatory schemes.

Scope and balance of the Reporting Framework

Restriction to climate change

A number of respondents said that climate change reporting should not be separated from or given disproportionate attention compared with other areas of sustainability reporting (eg: water and waste).

Potential scope and scale of disclosures

One respondent suggested that reporting should focus on reliable, consistent GHG emissions data and that disclosure of other matters, for example regulatory risk may have less relevance, particularly where information about prospective or new legislation is already in the public domain (as is the case for changes in legislation on taxation and royalties etc).

Restriction of framework to investors

A number of respondents said that the Reporting Framework should be capable of responding to the needs of a range of stakeholders, including public sector organisations, in addition to investors.

“the variety of possible uses for data should be kept in mind in order to provide a standard that can adapt and grow, responding to investor and societal needs for carbon information..” (GreenStar Trust)

Other indirect (Scope 3) emissions

Respondents generally felt that scope 3 emissions should be covered in more detail by the Reporting Framework. A number of suggestions were made including that:

- There should be clearer guidance as to which type of Scope 3 emissions it is ‘best practice’ to report. This in turn should depend on the emission sources over which the reporting entity has the most significant degree of control.
- CDSB should consider development of the templates to cover reporting of life cycle emissions/the embodied energy content of the assets that a company employs to run its business and/or how those affect their balance sheet and profitability.
- However, respondents also agreed with CDSB that further work on Scope 3 emissions should await the publication of the WRI/WBCSD GHG Protocol Team’s new guidelines on product and supply chain reporting and progress on the determination of organisational boundaries.

Co ordination and organisation

A number of respondents commented on the need for an organisation to be established or identified that has the authority to develop further and implement the CDSB Reporting Framework, taking account of the points raised through the consultation. Some suggested that the International Standards Board (IASB) would be the most appropriate and expedient body for this purpose. It was also noted that any such coordinating body should include representation from developing nations. One respondent suggested establishing or using an existing UN organisation to track adoption of standards and press for conformance referring to the model that has been used for financial disclosure standards for tax havens.

Specific issues

Sector specific work

There was general support for CDSB's proposal to add to its Reporting Framework sector specific details to reflecting the inevitably different implications for companies in different sectors. However, a range of views was expressed about how and when this should be done as follows:

- CDSB should address sector specific concerns only when the underlying Reporting Framework is sufficiently robust to build upon.
- Sector specific approaches should be allowed to develop naturally through application of the Reporting Framework.
- At the least, a distinction should be drawn between disclosure requirements for energy intensive and non energy intensive sectors respectively.
- Guidance should specify the expectations of companies according to their sector, emission level and market cap.
- Sector specific work should be conducted through consultation, focus groups and open source web based facilities to develop appropriate performance measures and indicators for particular industries/sectors.

Performance measures and benchmarking

Responses reflected a clear demand for meaningful measures for benchmarking GHG emission and energy use mitigation activities. Although there was some support for it, generally respondents did not think that CDSB's recommendation for determining GHG intensity by reference to revenue was quite right. Views varied on how this should be resolved from allowing companies to decide on the most appropriate intensity metric for their business driven by stakeholder demand, to specifying industry specific standard metrics. Two specific suggestions were made by Nelson Design Services:

- Development of a metric that would allow the magnitude of a company's profitability to be compared with its competitors or other market sectors in terms of the GHG emissions intensity of its operations (emissions + assets) with values typically expressed in terms of kilo tonnes CO₂e / \$ output.
- Alternatively, the reciprocal performance metric: Return on Embodied Carbon Employed (ROCO₂e) whose units could be expressed in \$ / kilo tonnes CO₂e. This would be an equivalent to the more conventional return on capital employed (ROCE) and similar to the concept of Energy Return on Investment (EROI).

Again, it was noted that difficulties related to determining organisational boundaries, particularly how to treat in-sourcing and out-sourcing, need to be resolved in order to develop standard intensity metrics.

"relying on companies to define and explain the performance measures and indicators that they use will likely result in significant variance in practice to the detriment of comparability and transparency..". (AICPA)

Reductions and offsets

A number of respondents said that the Reporting Framework needs to provide more detail on the way in which companies should account for/disclose GHG reductions and offsets, including the GHG reductions one organisation's actions enable another to make. It was noted that reductions should be clearly distinguished from carbon sinks and that caution should be exercised about the potential for double counting and the characterisation of GHG "reductions" in the calculation of "net" emissions. Disclosures should also cover the extent to which companies are involved in CDM and JI projects. One respondent commented that use of graphics to illustrate year on year reductions is useful provided that a meaningful and faithful representation is portrayed and that graphics are not used to mislead readers.

Forward looking information and confidentiality

Concerns were expressed that the Reporting Framework potentially requires disclosure of competitively sensitive information. Problems were also anticipated in relation to the requirement to disclose forward looking information. Respondents commented that the requirements in the Reporting Framework are potentially at variance with the way in which companies treat other risk factors and that disclosure of forward looking information could lead to market distortions and competitive damage. One respondent suggested that competitive sensitivity might be added to the guiding principles as a constraining factor on disclosure.

Assurance

Whilst some respondents felt strongly that third party verification must be obtained for quantitative GHG emissions data disclosed under the Reporting Framework, others expressed concerns about the extent and expense of an exercise to assure disclosures. Further clarification was requested on assessor's duties in relation to disclosures under the Reporting Framework, how those duties would be affected by verification already received in relation to information reported under statutory schemes or as part of the wider assurance engagement on sustainability reporting and what the relationship is with assurance under the ISO 14064 series.

Strategy

Some respondents said that clearer definition of climate change strategy is needed in order to respond to Reporting Template 1. One respondent distinguished business strategy which may be impacted by climate change from strategies to address climate change and recommended that the distinction should be made clear throughout the CDSB Reporting Framework.

The link between reporting, behaviour and action

One respondent noted the link between reporting requirements and corporate behaviour and highlighted the importance of reporting requirements that induce behaviours that support the transition to a low carbon economy.

Conclusions

CDSB is delighted that responses to the consultation reinforce its mandate to continue development of the Reporting Framework, taking account of the comments made, and that the responses give the Board such clear direction on the future work it should conduct. Details of CDSB's planned activities may be found in its 2010 work plan on www.cdsb-global.org.

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