Carbon reporting framework—examining the government consultation

Environment analysis: Michael Zimonyi, from the Climate Disclosure Standards Board (CDSB), argues that a streamlined approach to reporting on carbon output is a positive step in the right direction, with a few obvious improvements that could further enhance its impact.

Original news

Consultation on new energy and carbon reporting framework, LNB News 12/10/2017 83

The government is consulting until 4 January 2018 on a simplified energy and carbon reporting framework for energy-intensive companies and possibly Limited Liability Partnerships from April 2019, to follow the abolition of the CRC energy efficiency scheme and introduction of corresponding increases in rates of climate change levy.

What are the most notable proposals?

The most notable aspect of the proposals is the recognition that companies have a whole range of climate change-related reporting requirements to comply with. As a response to this, the Department for Business, Energy and Industrial Strateg (BEIS) is looking to understand where there are overlaps in the information that the government requests and make the process of reporting simpler and more effective. This is obviously a smart approach that will give businesses more time to focus on implementing initiatives to improve their environmental impact and make their operations more resilient.

In addition, the consultation takes account of the most recent developments in climate change reporting and asks questions on how to implement the recommendations of the task force on climate-related financial disclosures (TCFD), an initiative convened by the G20 financial stability board. This initiative is being examined by governments across the globe (Australia, Japan, China, the EU, Canada), so it’s encouraging to see the UK looking at ways to integrate it.

What practical implications could the proposals have for the industry and those advising in this area?

More streamlined requirements should let industry breathe a sigh of relief. This signals the first steps towards the end of the explosion of reporting acronyms and a harmonisation of requirements. Incorporating the TCFD recommendations in this type of reporting will reduce the need for additional, more obscure amendments down the line.

The ultimate goal of this initiative is to expose future market risks deriving from climate change, thus protecting companies and investors alike.

The key priority for any adviser is to ensure companies understand that this information has to satisfy multiple purposes. We need to ensure that the users of this information are kept at the heart of reporting.

Is there anything in the proposals that is unclear or could have unintended consequences?

While we wholeheartedly encourage the UK government to implement digital reporting through inline eXtensible Business Reporting (iXBRL), this is not yet a mandatory requirement for the rest of the annual report. As a result, implementing a requirement for digital reporting for climate change-related information alone will separate this crucial information from the rest of the data.

Financial reporting colleagues at BEIS and other government departments should take this as an opportunity to take this initiative forward and implement digital reporting for annual reports and accounts.

Another important aspect we believe should be taken into account is the difference between climate change reporting standards and financial reporting practice that is used in the rest of the annual report.

Climate change reporting defines the ‘boundary’ of organisations based on their influence or impact, but financial reporting takes an approach that is closer to the legal boundaries of the business. It is possible to report on both boundaries at the same time, but it is important not to miss the above point. Omitting this detail would result in investors trying to compare apples to oranges and missing the full picture of how climate change information relates to financial practices.

Our CDSB Climate Change Reporting Framework offers in para 4.24 an approach to reporting both sets of boundaries simultaneously.

What should lawyers take note of?

The TCFD shone a light on the financial materiality of climate change. For reference, figure 1, page 8 of the recommendations of the TCFD report provides a clear representation of the envisaged risks.

Lawyers should take note of the fact that mainstream financial filings are required by law and, as such, need to be scrutinised to a higher standard, and they should go through board-level sign-off. We believe compliance officers should join forces with audit committees to ensure that the reported information has been prepared to the highest standards.

What are the trends in this area and are the proposals in line with these? What are your predictions for the future?

It is difficult to ignore the 500-pound gorilla that is the TCFD. The recommendations have arguably boosted understanding of the importance of climate-related financial information, which has considerably increased the pace of climate reporting. Our prediction is that the impact of climate change on businesses will dominate this agenda, pulling more investment to high performers in this space.

We also foresee the transition from current PDF-based annual report to a digital and modern format (iXBRL), that will help investors and analysts get to grips with data that is currently locked up in hundreds of pages.

In summary, we believe we are heading in the right direction for a transformation to a world where reporting climate change and natural capital information will be done with the same rigour as financial information. This will build trust in the information reported, creating a strong basis for a fair transition to more resilient, sustainable markets.

Interviewed by Julian Sayarer.

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