November 11, 2009

CDSB Secretariat
The Climate Disclosure Project
40 Bowling Green Lane
London, EC1R ONE
United Kingdom

Re: **The Climate Disclosure Standards Board (CDSB) Reporting Framework**

The American Institute of Certified Public Accountants (AICPA) is pleased to offer the following comments in response to the on the Exposure Draft of the referenced CDSB Reporting Framework.

The AICPA strongly supports the eventual use of a single set of high-quality, comprehensive global accounting standards by public companies in the preparation of transparent and comparable financial reports throughout the world. A single global standard for climate change information will serve to establish a common language and provide the clarity, consistency, comparability and reliability of information necessary for meaningful disclosure.

We have also been an ardent supporter of enhanced business reporting of key strategic and performance indicators for a number of years. Climate change and other sustainability issues are an important subset of this expanded domain of information increasingly sought by investors and other stakeholders in financial reports.

In 2009 the AICPA joined with 16 accounting body members from around the world in signing the five sustainability principles of the Accounting for Sustainability (A4S) Forum established by His Royal Highness Prince Charles of Wales. We concur that mainstream reporting of climate change information will provide information of value to investors and regulators.

The AICPA supports the mission and objectives of the CDSB, in particular this effort to develop a single global framework for climate change-related disclosure in mainstream reports.

We hope you find our comments that follow to be helpful to that end.

Sincerely,

Arleen R Thomas

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SVP, Member Competency and Development

Introductory questions

Question 1 - Single global framework - *Do you agree that a single global framework for climate change-related disclosure in mainstream reports is necessary and/or possible, notwithstanding the background of different national developments? If not, please explain why.*

Q1 - AICPA Response:

Climate change is a global issue that demands global solutions. Our increasingly global economy has resulted in widespread acceptance of International Financial Reporting Standards in a very short period of time, underscoring recognition of the importance and global standards.

We believe that standardization of reporting of climate-change related information will serve to create a common language for reporting that will reduce complexity for preparers, enhance transparency and usefulness for users, and reduce risks in markets.

While national practices may vary, we think a consistent global framework will serve as a valuable beacon for the further evolution of meaningful reporting of climate change information. Accordingly, the Framework appropriately acknowledges its complementary role in relation to national rules and other requirements in Framework Requirements, paragraph 2.3, and also in Item 1of Appendix 1 - A Guide to Preparing Disclosures under the CDSB Framework.

Question 2 – Overall approach - *Do you agree with CDSB's overall approach of aligning its Guiding Principles to existing relevant principles and objectives of financial reporting so as to elicit information of value primarily for investors? If not, please explain why and share with us your ideas for a new/different approach to climate change-related reporting.*

Q2 - AICPA Response:

We agree with the statement in the Basis for Conclusions on Exposure Draft document that, "*the financial and strategic business risks associated with climate change have the potential to affect the … performance and position of a company's business and should therefore be incorporated into mainstream reporting as a matter of general principle.*"

Aligning the Guiding Principles to existing relevant principles and objectives of financial reporting will facilitate effective implementation and acceptance of the Framework.

Question 3 – Sector-specific issues - *At the current stage in its development, the CDSB Reporting Framework, including the Reporting Templates, are designed for general use by all companies within the stated scope of applicability. Do you agree that further work is required to develop the Reporting Framework, including the Reporting Templates, to take account of particular sector-specific issues related to climate change? If so, please provide your recommendations, referring to particular sector specific climate change-related initiatives if possible.*

Q3 – AICPA Response

We anticipate that there may be a need for additional sector-specific guidance and the development of sector-specific performance metrics where meaningful (see response to Question 8 for more on the use of performance metrics).

Characterizing decision-useful information

Question 4 – Decision-useful information - *Do you agree with the principles and characteristics of decision-useful information that CDSB recommends for making judgments on the information to be disclosed under CDSB's Reporting Framework? If not, what additional principles or characteristics are required, or which ones suggested in the Framework would you change?*

Q4 – AICPA Response

Grounding the Framework's principles in existing and emerging standards, models, frameworks and practices is a sound approach. Reliance on the GHG Protocol and others for corporate climate change disclosure, incorporating characteristics of decision-useful information from jointly developed IASB and FASB proposals, and utilizing previously-developed concepts of expanded reporting from the Enhanced Business Reporting Consortium and others contributes significantly to the credibility of the Framework.

In paragraph 6.10, the Framework ED introduces the concepts of "fundamental," "enhancing," and "constraining" characteristics which affect the usefulness of information from a joint IASB/FASB Exposure Draft - An Improved Conceptual Framework for Financial Reporting. Constraining characteristics in the IASB/FASB model include materiality and cost. The Framework recognizes the "constraining" characteristic of materiality, but not the characteristic of cost. The rationale for this is explained in a footnote as follows:

> *CDSB has not adopted the IASB's qualitative characteristic of cost for the purposes of the Framework because the Board is confident that the benefits of the disclosure outweigh any additional marginal costs associated with information collection and assessment for reporting under the Framework.*

We recommend that, rather than dismiss the concept of cost as a constraining characteristic, the CDSB adopt cost as a characteristic and provide relevant contextual commentary for this concept as it relates to climate change information.

Paragraphs C29 – C31 of the Improved Conceptual Reporting Exposure Draft capture essential considerations regarding the cost of information. In summary, these paragraphs address the fact that the qualitative assessment of benefits and costs often will be incomplete and that the omission of decision-useful information also imposes costs. The referenced text also underscores the importance of financial reporting information in helping capital providers make better decisions, which results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole.

Question 5 – Practical application - *Do you agree that the CDSB characteristics of decision-useful information are practical for companies to apply and sufficient to limit the amount of information disclosed to the most relevant content for users? If not, what additional guidance or information do you suggest CDSB include?*

Q5 – AICPA Response

The characteristics of decision-useful information are valuable guidance to companies in the preparation of disclosures in their financial statements. In particular, the Framework uses a quote to illuminate the Guiding Principle of materiality in relation to climate change information, that "materiality aims to provide *a workable filter on disclosed information, allowing investors to see major trends and significant events*."

The Framework also correctly asserts that it is impossible to specify a uniform quantitative threshold at which information becomes material noting that the determination of materiality is a dynamic process dependent upon prevailing conditions and "also because *there is no consensus…about the timing or extent of climate change impacts."*

Notwithstanding this guidance on the "constraining' Guiding Principle of materiality, the Framework's four templates call for disclosure of an extensive amount of information, as evidenced by the comprehensive nature of the annexed example Greenhouse Gas Emissions Report. In addition to 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.

Content

Question 6 – content inclusion - *Do you agree with the content that CDSB recommends for potential inclusion in disclosures under the CDSB Reporting Framework? If not, what additional areas would you recommend or which types of information in the Reporting Templates would you change?*

Q6 – AICPA Response

The content recommended by the CDSB Reporting Framework is very comprehensive. We offer the following two comments with respect to specific content areas:

Q6. A. Governance Information

Paragraph 1.15 of the Basis for Conclusions on Exposure Draft includes a quote that identifies information about governance processes as one of the elements of climate change information sought by investors.

The Disclosure Guide to Template 1 – Strategic Analysis includes guidance for a description of corporate governance actions taken to address climate change. In addition, section 1.4 of the Greenhouse Gas Emissions Report illustrative example appended to the Exposure Draft includes extensive information about governance. However, the forepart of the document does not include any reference to this critical information.

We recommend that the Framework objectives detailed in paragraph 1.6 of the Exposure Draft include the objective of informing investors about governance activities related to climate change. It might also be appropriate to re-title Template 1 to include governance as well as strategic analysis.

Q6.B. Statement of the company's position on climate change

Paragraph 1.6 articulating the objectives of the Framework makes a clear distinction between disclosures that

- Inform investors what management views as the most important climate change-related issues, including risks affecting the company's economic performance and prospects;
- Enable investors to assess the strategies adopted by the company to manage those issues and the likelihood that those strategies will be successful;

The Disclosure Guide to Reporting Template 1 provides very clear guidance recommending at a minimum a statement of the company's position on climate change, including impact on strategy, implications for competitiveness and access to resources, and possibly also an explanation of actions being taken to maximize opportunities and manage risks that are not addressed under Templates 2 and 3, which specifically address regulatory and physical risks from climate change, respectively.

However, it is our observation that, in the Framework itself, the distinction between the corporate strategy (and management's assessment of the impact of climate change on that

strategy), and the company's strategy to address the risks and opportunities related to climate change is lost and merged into the Template 1 rubric of Climate Change Strategic Analysis.

While the ideal state is full integration of climate change and corporate strategies, the current reality is that companies have business strategies that are impacted by climate change considerations, and they have largely separate strategies to address those considerations. We would recommend that this is an important distinction to make and maintain throughout the document. Investors are equally interested in overall company strategy, management's analysis of the potential for climate change impact on their strategy, the company's climate change-specific strategy, including both risks and opportunities, and performance against that strategy.

In particular, paragraph 2.2 outlining the Framework Requirements includes a single bullet for each template. It might be helpful to parse these two parts of the strategic analysis (and governance as noted in response to Q6) in this initial introduction to the requirements. Similarly, the strategic focus element under *Characteristics of decision-useful information* could be made clearer in this regard.

Question 7 – regulatory requirements - *Does one or more of the jurisdictions in which you operate already have requirements for any of the content in the Reporting Templates to be disclosed according to local rules? If yes, are the requirements consistent with the proposed CDSB Framework including the Reporting Templates? If they are not consistent, what are the major areas of conflict or difference?*

Q7 - AICPA Response

While there are various requirements for the disclosure of important strategy and risk information in the United States and a number of initiatives for specific disclosure of climate change information, we are not aware of any mandatory requirements for disclosure of the climate-change specific content that are inconsistent with the proposed CDSB Framework and Reporting Templates.

Question 8 – use of performance metrics - *CDSB's proposed Reporting Framework requires companies to define and explain the performance measures and indicators they use to track and demonstrate their progress in responding to climate change. CDSB considers performance measures and indicators to be crucial elements of decision-useful information as they aid understanding and comparability over time, provided that consistent metrics are used year on year. Do you foresee particular challenges in setting and explaining performance measures and indicators, and using those metrics on a consistent basis over time? If so, please explain those challenges.*

Q8 - AICPA Response

As stated in our response to Question 1 on a Single Global Framework, We believe that standardization of reporting of climate-change related information will serve to create a common language for reporting that will reduce complexity for preparers, enhance transparency and

usefulness for users, and reduce risks in markets. Furthermore, we agree that performance measures and indicators are crucial elements of decision-useful information as they aid understanding and comparability over time, provided that consistent metrics are used.

Relying on companies to define and explain the performance measures and indicators that they use, however, will likely result in significant variance in practice to the detriment of comparability and transparency. Accordingly, we recommend that key general and, where appropriate, sector-specific, performance measures and indicators should be identified and defined to complement the higher level Framework.

Existing statutory requirements and/or voluntary, open-standards efforts already underway may be leveraged in identifying key performance measures and indicators related to climate change. One such effort is the World Intellectual Capital Initiative (WICI - www.worldici.com), which is developing an open-standards best practices framework for key corporate disclosures that fall outside traditional financial reporting, including those related to sustainability reporting. The WICI framework currently incorporates Environmental, Safety and Governance KPIs from the DVFA – Society of Investment Professionals in Germany, as well as statutory requirements for environmental reporting in Japan, and will be expanded as other best practices content is contributed for inclusion in the broader framework.

The definition of key performance measures and indicators will also enable the development of eXtensible Business Reporting Language (XBRL – www.XBRL.org) taxonomies[1] based on the Framework's templates, which is another important step in facilitating the transparent disclosure, reporting and analysis of climate change information. XBRL facilitates comparability while also allowing reporting entities to have the flexibility to disclose company-specific information where appropriate through the use of extensions to general taxonomies.

[1] Taxonomies are the dictionaries used by XBRL. They define the specific electronic tags for individual items of data (for example "net profit," or in the context of climate change disclosure, "Total gross direct GHG emissions in CO2 equivalent metric tonnes").

Practicalities

Question 9 – information collection - *How do you anticipate information for compliance with the CDSB Reporting Framework will be collected in your organization? If possible, please state whether in-house or proprietary software is likely to be used, which departments would be involved in the collection and review of information, and how long the annual information collection process is likely to take.*

Q9 - AICPA Response

The AICPA is currently in the process of developing our internal sustainability strategy and evaluating our environmental impacts. We do not anticipate that we will use special purpose software for purposes of data collection, and that most of collection and review of information will be conducted by our finance and facilities teams with support from key operating department personnel.

Question 10 – potential constraints - *What practical issues do you envisage when disclosing under the CDSB Reporting Framework? For example, constraints on the length of the mainstream report or particular requirements applicable in the jurisdiction in which you operate. What could CDSB do to limit any practical difficulties associated with reporting under the CDSB Reporting Framework?*

Q10 - AICPA Response

As noted above, the Framework's four templates call for disclosure of an extensive amount of information and the lack of consensus about climate change impacts will make it difficult for companies to find the appropriate measure for meaningful disclosure. Finding the right balance for disclosure of climate change information in relation to the already extensive disclosure of other relevant and important information will be a significant challenge for preparers of financial statements.

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Other Issues

Question 11 – other relevant issues - *Is there anything else of relevance you would like to raise?*

Q11 - AICPA Response

We have no other issues of relevance in response to Question 11.