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Our ref SS/288
Contact Sylvia Smith

25 September 2009

Dear Sir / Madam

Exposure Draft *The Climate Disclosure Standards Board Reporting Framework*

We are pleased to have the opportunity to comment on the above Exposure Draft issued by the Climate Change Disclosure Standards Board (CDSB). Generally we support the Exposure Draft, including the objectives set out on page 2 and the outcome sought by the CDSB as described on page 3. Aligning the presentation of information relating to the effects of climate change to a Reporting Framework that is consistent with the existing principles and objectives of financial reporting should help improve the decision-usefulness of such information.

Our letter provides responses to selected questions because we are commenting in our capacity as advisors and providers of independent assurance.

Responses to specific issues and questions raised in the exposure draft

1. **Question 6 – 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?**

We agree with the view expressed in paragraph 6.23 of the Exposure Draft, that most climate-change related disclosures involve estimates made under conditions of uncertainty and that to attain a faithful representation, it may be necessary to explicitly disclose the degree of uncertainty in the reported information. However, we believe that for estimates involving high estimation uncertainty it would be helpful if the Reporting Framework required disclosure of information about key assumptions and methods used, including significant changes from prior periods. Disclosure of this type of information is consistent with the enhancing guiding principles of comparability and understandability, as it would provide users with a better basis for understanding the estimate and for assessing an entity's performance in relation to prior periods and to that of its peers.

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Further, we agree with the proposal in the disclosure guide of Reporting Template 2 of the Exposure Draft that it would be helpful if entities highlight the inherent difficulty in making statements about possible future events, and the possible impact on the business if these possible future events were to occur.

However, given the level of change currently occurring in the climate change arena, entities may find it difficult to anticipate the future direction of government or international policy, and to reliably analyze the financial effects that prospective regulation may have on their business as suggested in Reporting Template 2 on page 30 of the Exposure Draft. Accordingly, we recommend that the Reporting Framework limit the disclosures in Template 2 to existing regulations, policies or government sponsored initiatives.

2. **Question 8 - 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 metric on a consistent basis over time? If so, please explain those challenges.**

We support the use of performance measures and indicators as a means of tracking and demonstrating progress made over time in response to climate change. However, in the spirit of focusing on principles the proposals do not specify actual performance measures, they instead encourage entities to develop their own performance measures and indicators. While we understand why the CDSB has decided to take this approach, we are concerned that total flexibility in terms of the selection of appropriate measures is not consistent with the enhancing guiding principles of comparability and understandability. Total flexibility enables entities to develop performance measures that are different from other entities in their peer group. It also enables them to cherry-pick measures that are favourable, and exclude measures that show a need for improvement.

The Exposure Draft notes that comparability in the early years may be low as entities develop their performance measures, but over time entities will be influenced by best practice from other entities and comparability will increase. However, we are concerned that this may be a very slow process and that there is a risk that the indicators adopted in the end do not necessarily represent best practice, even though they are used broadly.

As an alternative, we recommend that, in addition to encouraging entities to disclose their own performance measures, it would be helpful if the Reporting Framework requires disclosure of a minimum range of performance measures that are applicable to all entities. This will improve comparability in the early stages, and will still enable entities to present the additional information that they believe will be relevant to users.

Other specific comments

Presentation of information

Paragraph 5.2 of the Exposure Draft states that "where possible, best practice is to intersperse discussion on climate change issues within the relevant sections of the management commentary." We disagree with this comment. We believe it is important to keep all disclosures about climate change issues together, as opposed to interspersing them throughout the management commentary. Keeping such information together has the following benefits:

- It will enable users to more clearly identify and assess how an entity is responding to risks and opportunities posed by climate change.

- It will enable entities to more clearly demonstrate how they are meeting the reporting requirements of the Reporting Framework and, if applicable, what information was subject to independent assurance, in the event they decide to ask for independent assurance to be provided only on climate change information.

- It will enable assurance providers and users of the climate change reporting to more clearly identify the information subject to independent assurance.

Responsibilities of the financial statement auditor

Paragraph 8.2 of the Exposure Draft raises the expectation that, presentation of climate related information in management commentary that is not subject to audit would still result in a minimum level of auditor involvement since, as part of their audit responsibilities, auditors are required to read information that accompanies the financial statements to identify any material inconsistencies with the financial statements and observed misstatements of fact[1].

We are concerned that this statement may set unreasonable expectations since the ISA 720 responsibility relates primarily to matters that are relevant to the financial statements and the knowledge of the entity that the auditor has obtained by virtue of conducting the financial statement audit. It is not clear how this responsibility would be helpful in terms of the information to be disclosed under the proposed Framework. Much of this information will not have a direct link to financial statement information and therefore will not have been considered within the scope of performing a financial statement audit. Further, the identification of apparent misstatement of fact in the information included in management commentary would be unlikely since a financial statement auditor who is not also engaged to provide assurance on this information may not have the relevant expertise.

[1] ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*, addresses these responsibilities. The exposure draft refers to ISA 270 which appears to be a typographical error.

Accordingly, we recommend that the Reporting Framework clarify that:

- Unless specifically engaged to report on information included in management commentary, the financial statement auditor has no responsibility with respect to the accuracy and appropriateness of such information.

- The identification by the auditor of apparent misstatements of fact in climate-change related information included in management commentary would be unlikely since a financial statement auditor who is not also engaged to provide assurance on such information may not have the relevant expertise.

Please contact Sylvia Smith at +44 (0) 20 7694 8089 if you wish to discuss any of the issues raised in this letter.

Yours faithfully,

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