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CDSB Secretariat
The Carbon Disclosure Project
40 Bowling Green Lane
London EC1R 0NE
United Kingdom

Dear Sir / Madam,

I am pleased to have the opportunity to comment on the Carbon Disclosure Standards Board Reporting Framework Exposure Draft. My comments are restricted to two of the eleven questions included in the Invitation to Comment. I am commenting in my capacities as an Associate Professor of Accounting; a member of the Institute of Chartered Accountants in Australia; and a member of an independent researcher team examining the investment implications of global climate management.

Responses to specific questions included in the Invitation to Comment

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?

I have two comments to Question 6.

CDSB has designed a climate accounting report according to the precepts of financial accounting. Such an approach requires the explicit statement of certain assumptions. If aspects of an organization's climate accounting report are judged to carry material financial implications in current or future reporting periods, those implications should be recognised in the financial report. National and international conceptual frameworks used in financial reporting would supply guidance on recognition criteria for liabilities, contingent liabilities related to operational risks posed by climatic variations, and revenues and expenses traceable to carbon emissions emitted in production cycles.

Preliminary results from our examination of reported carbon intensities of Global 500 companies suggest that current-year accounting income when used to deflate volumes of current-year carbon emissions can produce rankings inconsistent with a ranking based on current-year carbon emissions volumes alone. We are concerned with this result, and suggest that the bases of the carbon intensity calculation deserve examination. It is noted that another

member of the TWG has also raised a concern over the basis of the carbon intensity calculation.

2. 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.

My comments to Question 2 are directed towards the choice of the Management Commentary section as a preferred reporting venue. The CDSB Draft Reporting Framework states that the purpose of providing climate accounting reports is to aid comparability for investors and so aid the efficient allocation of capital. This laudable objective is frustrated if investors and their agents are not about to read information provided to them. This is a likely outcome if, as recommended in the Draft Reporting Framework, the climate accounting report were to be placed with narrative information relating to management's objectives. The Management Commentary is a reporting venue unsuited to a comparison of an organization's position and performance. If the climate accounting report were to be included in the Management Commentary, it could be expected that it would not attract scrutiny. In that light, the benefits of the suggested reporting venue are unclear.

It is worth considering the non-investor groups that would be interested in climate accounting reports. Non-investor user groups would include:

- energy users,
- energy policy advisors,
- energy consultants,
- bureaus of meteorology,
- environmental nongovernmental organizations,
- consumer groups,
- employer and employee organizations,
- academics,
- interested citizen groups, and
- governmental agencies and regulators (other respondents to the Invitation to Comment have mentioned various regulatory requirements for organizations to report information on carbon emissions, climate management programmes, and so on).

It is also noted that the Draft Reporting Framework is silent on climate accounting reports prepared by public sector organizations, where the principal users would not be investors per se but custodians of public monies. Information comparability is an important characteristic for all potential users of climate accounting reports. Many if not all the user groups mentioned above may expect that a climate accounting report would be presented separately and would not be embedded in an existing section of the annual report.

The issue of information costs must be considered. Other respondents to the Invitation to Comment have made estimates of material preparation costs associated with the draft reporting requirements. Information is useful insofar as the costs of its preparation do not exceed its benefits. It becomes difficult to justify the preparation costs of the climate accounting report if it were to be placed in a section of the statutory report which does not attract the scrutiny of readers.

It is noted that the choice of the Management Commentary as a reporting venue is inconsistent with the Australian Water Accounting Board's Preliminary Australian Water Accounting Standard (currently issued for comment; available, http://www.bom.gov.au/water/wasb/docs/Model_Report.pdf). The Preliminary Australian Water Accounting Standard (representing a general purpose report in accordance with accounting standards based on a conceptual framework and prepared on an accrual basis using double entry accounting) recommends that the water accounting report form a separate section of an organization's statutory report. There is no provision for the requirements of the Australian Water Accounting Standard to share space with other unrelated information. Documents issued by Australia's National Water Accounting Development Project may be useful reference points for the CDSB.

From the perspective of benchmarking and comparability, both a dedicated climate accounting report and the financial report are appropriate reporting venues. Just as the Management Commentary is currently used to discuss elements of the financial report in terms of management's objectives, the Management Commentary would be an appropriate place to discuss the contents of the climate accounting report. Discussion of the climate accounting report in the Management Commentary would serve to underline the significance of climate reporting and sustainability reporting.

The nature and volume of information contained in the Draft Reporting Framework appears unsuitable for wholesale inclusion in the main statements and notes of the financial report. Application of the dual principles of materiality by quantum and materiality by nature would serve to reduce the volume of reported information from that suggested in the draft reporting requirements; locate the climate accounting report to a dedicated section in the statutory report; and transfer any financially material aspects of the climate accounting report to the financial report. These matters are currently unresolved and deserve consideration.

My final comment is that the unique nature of climate accounting justifies the preparation of a Climate Accounting Conceptual Framework. Precedent exists in the Australian Water Accounting Conceptual Framework (available, http://www.bom.gov.au/water/wasb/docs/WACF_August09.pdf). The Australian Water Accounting Conceptual Framework document uses the following sections:

- a glossary of technical terms,
- reporting scope,
- objectives of general purpose water accounting reports,
- definition of reporting entities,
- report users and their information needs,
- reporting principles and concepts,
- definition and recognition criteria of the elements of general purpose water accounting reports,
- consideration of the relation of reporting materiality and compliance disclosures,
- qualitative characteristics of general purpose water accounting reports, and
- assurance engagements associated with water accounting reports.

I would recommend that the CDSB's Basis for Conclusions, combined with a distillation of the arguments contained in the Invitation to Comment, be used to prepare a Climate Accounting Conceptual Framework covering the areas mentioned above. Issue of a

Conceptual Framework should precede the drafting and issue of a Climate Accounting Standard.

Sincerely,
Matthew Haigh