Defra's response to the CDSB's consultation on the Reporting Framework exposure draft

30/10/2009

Introductory questions

Q1. 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.

Defra supports the CDSB's Reporting Framework initiative and agrees that a single framework for climate change related disclosure in mainstream reports is necessary to encourage corporate carbon footprint reduction and to inform investment decisions. In order to reduce the regulatory burden on companies, it is imperative that there is harmonisation at an international level of reporting frameworks and Defra engages internationally to make sure there is alignment between the UK and other countries reporting guidelines.

Quoted companies in the UK (as defined in the Companies Act 2006) already report information on environmental matters in their business review (to the extent it is necessary for an understanding of the development, performance or position of the company's business). Defra recommends all organisations should report on their corporate carbon footprint although it is not prescriptive as to where this should be reported.

Q2. Do you agree with the 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.

Defra supports the basing of this framework on existing standards, models and practices. This approach reduced the need to 'reinvent the wheel' and in doing so allows for consistency and a reduced burden on organisations form multiple reporting structures. The key strength of the CDSB's work is to make the explicit link between financial and environmental reporting standards.

A key difference between the recommendations of Defra and the CDSB's framework is the intended target audience of reports. Whereas CDSB Framework seeks to provide investors with key information for decision making, Defra encourages organisations to publically disclose their corporate carbon footprint for a variety of stakeholders. Despite this, the two initiatives remain complementary. The emphasis of the CDSB on aligning financial and environmental reporting functions has clear benefits for organisations and investors alike, although it should not be forgotten that other stakeholder groups, for example customers, may also find this information useful in making decisions.

Q3. At the current stage in its development, the CDSB Reporting Framework, including the Reporting template 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 relating to climate change? If so, please provide your recommendations referring to particular sector specific climate-change related initiatives if possible.

Defra's Guidance also encourages reporting across all sectors and Defra has undertaken considerable stakeholder engagement in developing its Guidance. It has found from this engagement that individual sectors themselves are keen to have and develop sector-specific guidelines to provide consistency in approach across organisations. Defra's guidance is intended as a general guidance document and Defra is represented at several sector-specific initiatives to provide a policy input. We have recognise from this engagement that there is significant sector-specific knowledge which is needed to understand how reporting guidelines will impact each different sector and in some cases this can be provided best by the sectors themselves. However, the CDSB may find that there is a significant role to play by linking sector-specific initiatives at an international level and encouraging and facilitating dialogue within sectors.

Characterising decision-useful information

Q4. 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?

Defra agrees with the main principles and characteristics outlined. However, we suggest that transparency is a vital issue not fully covered here. When reporting on GHG emissions it is important to be transparent about how you have done this in order to promote credibility. This is akin but parallel to faithful representation and is an important underpinning principle as there is considerable tension between uncertainty in the reporting of GHGs and being faithful to reality.

Cost: In response to the consultation on its reporting Guidance, Defra received a number of responses which said that there would be significant costs involved with setting up systems to collect and monitor the data needed for reporting GHG emissions. However, the majority of respondents agreed that the marginal costs of setting this up and maintaining it were outweighed by the benefits of reporting.

Q5. 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?

No comment

Content

Q6. 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?

Defra supports the disclosure guidance set out in the reporting templates which provide useful guide for reporting information once data is collected, analysed and decisions are made or targets set. Defra encourages all organisations to disclose their significant Scope 3 emissions as well as Scope 1 and 2. Reporting Template 4 offers little guidance on reporting Scope 3 emissions and places little emphasis on doing so which may discourage organisations from reporting them. This is an area which requires guidance as to what Scope 3 includes, which emissions are important to measure, for example what is meant by 'significant', particularly as there is uncertainty around the reporting of Scope 3s more widely. Another area which organisations are keen to represent is the reductions made in GHG emissions through offsetting schemes. Defra recommends that these are reported in addition to the gross emissions and feed into a net emissions figure.

Q7. 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?

Please see response to question one for the requirements placed on UK businesses for environmental reporting. UK organisations may also be required to disclose emissions data under the Climate Change Agreement, CRC Energy Efficiency Initiative and/or the EU Emissions Trading Scheme.

Q8. 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.

Feedback to the Defra guidance has highlighted the concerns of some sectors, particularly those in carbon intensive industries. They have suggested the need to develop sector-specific indicators which can be used to allow comparability across a sector. This would therefore allow potential customers and investors to compare different organisations and provide an opportunity for competition on this metric as well as financial cost.

Practicalities

Q9. 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.

No comment

Q10. 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?

No comment

Q11. Is there anything else of relevance you would like to raise?

Whilst Defra recognises the scope of the CDSB's framework does not extend beyond the reporting of GHG emissions, it should be remembered that this is one part of the environmental risks associated with climate change. The reporting of other environmental indicators, such as water and waste, are necessary to provide investors with a complete picture of the risks posed to an organisation and this should provide the bases for making sound investment choices.