ERNST & YOUNG

Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London SE1 7EU

Tel: +44 (0)20 7980 0000
Fax: +44 (0)20 7980 0275
www.ey.com

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

25 September 2009

Ref: EY2009

Direct line: +44 (0)207 980-0764

Email: jan.babiak@uk.ey.com

By post and email: info@cdsb-global.org

Dear CDSB Secretariat

Reporting Framework

INTRODUCTION

Ernst & Young Global Limited ("Ernst & Young") welcomes the opportunity to comment on *The Climate Disclosure Standards Board (the "Board") Reporting Framework* Exposure Draft 2009 (the "ED").

The Board has shown significant leadership by highlighting why the proliferation of standards for the reporting of Greenhouse Gas ("GHG") emissions needs to stop, and how standards in the future can become more consolidated. This should help to progress the reporting of GHG emissions so they become more relevant (timely and material), comparable, verifiable and understandable.

We believe the ED, and the work that underpins it, is an important and worthwhile initiative. The comments we offer are drawn from discussion with colleagues in ten countries spanning five continents (North America, Europe, Africa, Asia and Australia).

OVERALL OBSERVATIONS

Though not the first to do so, we agree with the Board's aim to build a framework which is flexible, principles-based and seeks to find the right balance between rules and principles. The proposed framework suggests a clear understanding of the need to balance management's views from one company, with the needs of investors to receive reports from all companies which are comparable and consistent. However, there can be no mistaking the enormity of this task, where nothing short of a worldwide acceptance and consistent application of the framework will enable it to fully realise its objectives.

Ordinarily, in circumstances such as these, we would advise a market-led evolutionary process to give companies time to familiarise themselves with the requirements of the framework.

Ernst & Young Global Limited is a company limited by guarantee registered in England and Wales.
No. 4328808

Unfortunately, the rate of change to our climate and inevitable implications means that a more direct, prescriptive and expedient way to implement the framework should be considered by the Board.

These are exceptional circumstances which call for exceptional means, which is why we recommend regulatory intervention driven by a modicum of due process. Flexibility and choice in any framework are important, but in the case of GHG reporting we believe such attributes might have to be compromised in the interests of expediency. Accordingly, we have highlighted issues, concerns and ideas in response to the following questions which might help the Board to accelerate the development of a successful framework.

It is equally important that the constant proliferation of climate change standards (voluntary and mandatory) guidelines and frameworks, is halted in favour of consolidation and a concerted drive to find a means to create a legally binding global reporting framework. We encourage the CDSB to position itself at the forefront of such a drive, ideally in concert with the IASB which is currently working on a standard for the financial reporting of emissions trading schemes. In our opinion the best chance of success for the CDSB is to ensure that future consolidated standards, which have financial reporting elements, are owned and governed by the IASB. This should ensure that these standards are developed with their well established due process and oversight.

RESPONSES TO 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.

We agree in principle that a single global framework - driven by an existing global standard setter - is necessary; one which assimilates and reduces disparate standards into a cohesive set of core requirements, backed up with some form of local support. However, the possibility of this happening at this point in time is unlikely in our view, especially if compliance with the framework remains voluntary. This is likely to be the case because no single entity (regulator, standard setter, authority or voluntary body – CDSB included) currently has the mandate to impose a single framework which everyone will want and/or be able to follow with immediate effect, notwithstanding the many useful frameworks already in existence.

Therefore, use of the Board's framework will probably evolve over time. We expect that companies in different sectors and countries will gradually orientate themselves (with policies, procedures, offsets, measurements and reports) to a level of GHG disclosure which becomes more relevant (timely and material), comparable, verifiable and understandable. Similarly, local regulators will need time to build a mutual reliance and reciprocity, to help them implement a framework which establishes multi-jurisdictional standards acceptable to the international business community.

Q2 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.

We agree, for the most part, that an alignment with existing principles of financial reporting should provide a means of GHG reporting which is useful to investors. It should also help to increase the proximity of GHG reporting to directors' fiduciary duties; namely to disclose information which is material to the financial risks and uncertainties facing a business and its status as a going concern.

For example, we believe that new/consolidated GHG reporting standards which have financial reporting elements should be owned by the IASB. This will ensure that due process is applied to the formation of these standards, which are then positioned within a common reporting framework used in over 100 countries. A key benefit from doing this will be the governance and oversight applied to these standards as they are placed on a legal footing.

However, for this to succeed, we believe it will be necessary for reports to be based on a company's *equity* and *financial control* over emissions, rather than just its *operational* control over the same. That said, we acknowledge there are many circumstances where it is more appropriate for companies to report from an *operational* control perspective, so we regard *equity* and *financial control* reporting as an important addition to, rather than substitute for, *operational* reporting.

We believe this will help to serve the overall aims of the Board (to slow down and limit emissions). For example, it will help to avoid situations where companies *only* report GHG emissions which are proportionate and relative to an equity share in a business (perhaps a third-party outsourcing service provider) which happens to be emitting (operationally) significantly high levels of carbon on behalf of the reporting company.

Q3 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.

We agree that further work should be undertaken to develop sector-specific templates, but only after the main framework is widely accepted. This should help to prevent sector-specific templates being developed at a country-level, which could fragment reporting to such an extent that the long-term aim of comparability could be seriously jeopardized.

However, when the time is right, sector-specific templates developed internationally should help to define more consistently the materiality of emissions for certain types of business and sector, so investors are better able to compare like-with-like across national boundaries. This will include sectors which are "emission intensive" (such as coal, power generation, upstream oil and gas, cement, etc.) that have increased reporting obligations, given their exposure to the volatility arising from GHG legislation.

In addition to these improvements, sector-specific reporting should also help various industries to meet their broader environment-related reporting requirements (e.g., CSR and the interrelationships between economic, environmental and social corporate behaviour, as outlined in the Global Reporting Initiative).

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?

We agree with the principles outlined in the framework objectives, but safeguards are needed so that the choice and scope of information provided by companies does not become too broad and undermine its usefulness for decision-making. However, it might be helpful if more explanations could be provided on the types of decisions this information is required to support; by whom and for what particular purpose.

We suggest that more emphasis should be placed on the requirement that management provide investors with its views on 'the most important climate change-related issues,' which *may or may not* include risks that could affect economic performance and prospects. We believe that investors (many of whom could also be employees, consumers or service providers to the company) might require broader information on their company's overall environmental activities, to help inform their decisions and judgments on the company; its future prospects; and/or their equity within that company.

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?

The practicalities of providing decision-useful information will be challenging, because the means by which a company decides what is relevant and material (and therefore reported) needs to be verifiable (as required by a framework). Standards would be required in order to make sure that disclosures do not become too diverse, complex and potentially incomparable.

For example, companies should be in receipt of unequivocal guidance which sets out the boundaries of their GHG emission reporting (e.g., the extent to which the activities of a supply chain and outsourced service provider are included) and whether it is preferable that this is *mostly* based on equity or operational control. The underlying decisions, assumptions and motives required to interpret and apply this guidance (determining the extent to which a company reports within these boundaries) will have to be transparent and verifiable.

This will be necessary if a company wishes to make a "faithful representation" of its GHG reporting as outlined in the framework, rather like the principle of a "true and fair view". However, great care should be taken by companies when deciding how much information to disclose. This is because many investor groups and companies have already raised concerns about the increased size and complexity of company reports, so their tolerance for more content on GHG emissions may vary. For this reason we encourage the Board to weigh up the balance when developing its framework, between the provision by companies of a little information which investors will notice and use, and a lot of information which could be completely ignored.

Nevertheless finding the right balance should be worthwhile. This is because the level of verifiability and comparability, within and between GHG reports, should increase investor confidence in the claims made by companies when they announce and report against their GHG reduction targets.

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?

We agree with the content, to the extent that any type of information a company might wish to disclose on its GHG emissions could probably be found in one or more of these templates, with the noted exception of GHG-related tax liabilities. It might be helpful if the templates are more specific about target setting (e.g., company thresholds versus national targets) for short, medium and long-term periods. For example, short-term targets may be more realistic for one particular sector compared with another, and what constitutes a short-term period for one sector (e.g., five years) might seem like a long-term target for another.

In addition, Templates 1 and 2, (respectively called 'Strategic Analysis' and 'Regulatory Risks from Climate Change') require companies to be forward-looking about what are, in effect, unrealised risks and uncertainties. This might cause concern for the company's board and investors if the share value drops due to the disclosure of an overly optimistic outlook which lacks credibility.

Also, because these templates provide forward-looking information, the content will not be able to be audited under current international auditing standards and therefore cannot be verified, contrary to the framework's requirements. For this reason it might be more

appropriate if this information is disclosed at a macro-level by governments, in addition to a micro-level management report. For example, governments may be able to inform the wider public about a sector's GHG emissions, whilst management (in companies from specific sectors) educate their customers about the environmental effects of their personal consumption of products and services.

Template 4 will require companies to meet local regulatory requirements (e.g., cap and trade schemes) which emphasises the need for most, if not all countries, to adopt principles like those in the Board's framework. This is because companies which have equity or operational control over emissions, spanning several countries, will face a difficult challenge if they aim to make their respective GHG disclosures relevant and financially comparable across each of these markets.

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?

The templates are relatively high-level and should therefore accommodate local GHG disclosure requirements. But there may be organisational preferences at a national level as to how, for example, the GHG Emissions Protocol is applied, to include equity or operational control.

In a wider environmental context, many countries have reporting requirements which do not just specify GHGs collectively. Different GHGs (of the six currently recognised internationally) are subject to varying reporting requirements and restrictions around the world. In addition, the usage of water and bio-diversity are included in some (but not all) local environmental reporting guidelines.

We also noted the absence of specific references to tax issues and liabilities (e.g., in the form of levies issued against companies which exceed specified carbon emission thresholds). We believe the current framework would have to be modified to account for these variations and omissions.

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 metrics on a consistent basis over time? If so, please explain those challenges.

It is generally accepted that a successful company is, by definition, innovative and constantly changing so it can compete and win market share. Therefore, performance measures and indicators have to change if the information they are required to provide remains decision-useful (i.e., relevant (timely and material), comparable, verifiable and understandable) in a constantly changing marketplace and deteriorating environment.

The challenge for the Board will be ensuring that changes in metrics are driven by market circumstances, rather than for reporting expediency and/or the convenience of creating opacity around matters which a board might wish to de-emphasise.

We believe the best safeguard comes in two parts: companies should provide advanced warning if any of its performance metrics are to be changed; and the reasons for the change should be unequivocal and transparent.

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.

As a professional services firm we advise many clients on GHG reporting and the broader climate change agenda. As such, we see many different approaches. The most common reporting methods applied by these clients tend to make use of spreadsheets rather than bespoke reporting tools or software. However, the adoption of systems like XBRL might be useful to collate and position GHG reporting data alongside financial reporting information, enabling companies to capture GHG data in one place whilst allowing investors the opportunity to analyse the content and compile reports (including a level of detail on GHG reporting) of their choosing.

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?

The practical issues have been covered in our responses to the previous nine questions. However, depending on the level of adoption, there may be a requirement later on for the Board to become more assertive and "name and shame" companies that either: flout the principles of the framework; misinform the public about their environmental impact; and/or simply fail to report their carbon emissions.

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

The framework could be made more attractive to potential users if it provided evidenced-based information to show the significance and value of GHG reporting to different categories of investor.

It would be helpful if it could show *how* reporting GHG emissions in the manner prescribed will have the effect of ultimately *lowering* emissions. In addition, an explanation of how this particular framework compares with others, and how it will complement CSR reporting, would also be beneficial to potential users.

We should add that in our view it is important the framework is not seen to duplicate and undermine the purpose of the CSR report.

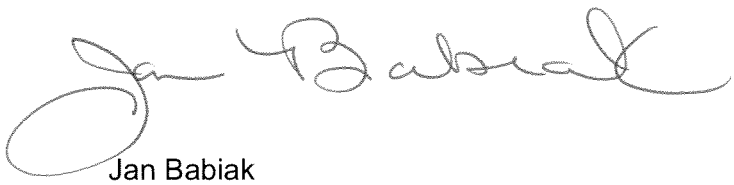
CONCLUSION

We believe there is a need for more comparable and consistent GHG reporting. Key steps towards the achievement of this must be the consolidation rather than proliferation of standards, without the introduction of more standard setters. In addition, the greater use of financial requirements in these standards should add more rigour to their content and use. To this end we encourage the CDSB to use its considerable influence and work alongside the IASB to help consolidate standards and, where appropriate, integrate them within an internationally recognised reporting framework such as the IASB's.

If all this can be achieved, investors and the wider stakeholder community should have access to more reliable information on GHG emissions. This should help to create greater awareness of the extent to which individual companies need to lower their emissions, with the effect of encouraging them to do something about it sooner rather than later. This could perhaps be facilitated further with additional arrangements such as "cap and trade" schemes. Governments are more likely to get initiatives like these up and running if GHG reporting becomes more consistent and reliable.

We hope our response is helpful and respectfully ask the CDSB to publish it alongside other responses shortly after the consultation closes. If the CDSB would like further clarification on the points raised by Ernst & Young, please contact me at your convenience.

Yours sincerely



Jan Babiak
Partner
Global Climate Change and Sustainability Services Leader
Ernst & Young Global Limited