
**Intergovernmental Working Group of Experts on
International
Standards of Accounting and Reporting
(ISAR)**

29th SESSION

31 October – 2 November 2012
Room XIX, Palais des Nations, Geneva

Friday, 2 November 2012
Morning Session

Sustainability Reporting

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Sustainability Reporting

2 November 2012

Lois Guthrie, Executive Director

Climate Disclosure Standards Board (CDSB)

Landscape overview - revisited

MANDATORY



Illustrative examples on Climate Change

- National Greenhouse & Energy Reporting Act 2007 (Australia)
- Act on Promotion of Global Warming Countermeasures (Japan)
- Financial Statements Act (Denmark)
- EU Emissions Trading Scheme
- CRC Energy Efficiency Scheme (UK)
- Canadian Environmental Protection Act
- Greenhouse Gas Mandatory Reporting Rule (USA)
- Climate Change Response Act 2002 (NZ)

VOLUNTARY REPORTING – NATIONAL, GLOBAL, INDUSTRY

CARBON DISCLOSURE PROJECT

Global Reporting Initiative™
WICI
the world's business reporting network
OECD
the NATURAL STEP
THE GLOBAL COMPACT

INDICES/RATERS



STOCK EXCHANGE ACTIVITY

- Australia
- Brazil
- Canada
- China
- Hong Kong
- Korea
- Malaysia
- Singapore
- South Africa
- Turkey

VERIFICATION



STANDARDS



The case for consistency
in corporate climate change-related reporting



OECD WORKING PAPERS ON INTERNATIONAL
INVESTMENT, No. 2012/1

**Corporate Greenhouse Gas
Emission Reporting:
A Stocktaking of
Government Schemes**

Inventory and analysis

www.cdsb.net/priorities/the-consistency-project/

Different audiences

- Shareholders
- Regulators
- NGOs

Different objectives

- Inform investors of risk
- Compliance
- Participate in indices
- Respond to NGOs
- Discourse of care

Different schemes

- Voluntary
- Mandatory
- Measurement
- Reporting/disclosure

SAME

- Type of information
 - *Strategy*
 - *Governance*
 - *Risks & opportunities*
 - *GHG emissions*
 - *Performance*
- Shared purpose
 - *How activities affect/are impacted by climate change such that investors, consumers, economy, planet are positively or negatively impacted*

Weighing up variety and consistency



Decision-making

When looking at publicly disclosed climate change information, the market place “sees an imperfect and incomplete picture both in what is said and in the rules dictating what should be said..”

Reporting

“the different sources and volume of sometimes overlapping or conflicting regulatory requirements and guidance...[is] a particular challenge for companies and an area offering scope for simplification, for example, by drawing them together and eliminating duplication. The piecemeal or incremental approach which [adds] requirements without reviewing existing requirements...was a problem...”

From the UK Department for Business Innovation and Skills consultation on narrative reporting

•Why report?

- Inform investors about risk
- Fulfil obligations under a carbon trading scheme
- Comply with regulatory reporting obligations
- Respond to requests for voluntary disclosure
- Participate in specialist indices
- Discourse of care

•How to report

- Depends on whether an approach is specified (US v UK approaches)
- Of 402 companies responding to CDP in 2011:
 - 155 used more than one methodology to prepare results.
 - On average 3 per company (but minimum 2, maximum 8)
- 13 G500 companies covered by regulation in Australia –
 - 11 used other methodologies too - on average 4 each.
- Hybrid arrangements.

•Where to report?

- Sample France, Germany and FTSE 600 – more than 75% produce annual AND sustainability reports

GHG emissions reporting methodologies - evidence

Sector	Main geographies	Organizational boundary approach	Voluntary schemes	Mandatory schemes
Metals & mining	South Africa, Australia, Europe, UK	Financial control	GHG Protocol	US EPA Mandatory Greenhouse Gas Reporting Rule (40 CFR Part 98) Canada GHG Reduction Plan EU Emissions Trading Scheme Australia NGER
Real estate investment	Australia	Operational control	GHG Protocol ISO 14064-1 Defra Voluntary Guidelines New Zealand Guidelines for voluntary GHG reporting	Australia NGER USA Energy Information Administration 1605B

Country	Provision	Commentary
Australia	The Australian Stock Exchange (ASX)'s Corporate Governance Principles and Recommendations, Principle 7	Information that might materially affect the price or value of a registrant's securities must be disclosed. Principle 7 clarifies that such risks include environmental and sustainability risks.
Canada	National Instrument 51-102 Continuous Disclosure	Canadian Securities Administrators Staff Notice 51-33 states that compliance with National Instrument 51-102 Continuous Disclosure Obligations requires information on environmental risks.
France	Grenelle II (Law No. 2010-788)	The law requires certain companies to include in their annual reports a section on social and environmental consequences of their activities and to provide a greenhouse gas balance sheet before 31 December 2012.
UK	The Companies Act 2006, section 417	The Act requires listed companies to report in their Business Review information on environmental matters and their impacts. Large quoted companies also have to report on environmental risks, policies and Key Performance Indicators.
Denmark	Management's review required by section 99a of the Danish Financial Statements Act	The Act requires companies to report on environmental capital.
USA	Securities Act 1933, Regulation S-K Items 101 and 103	In 2010, the SEC issued guidance to public companies clarifying that material climate change-related information must be included in corporate disclosures under existing law.

- CERES review of 600 company disclosures for 2010 and 2011
 - “only 39% at least minimally addressing ESG issues despite SEC pronouncement”
- Australia review of ASX 200 as at March 2010
 - 50% of companies were reporting at no or basic level
 - See sustainability reporting as “nice to have”

Response

More regulation?

Standards and guidance?

The Greenhouse Gas Emissions (Directors' Report) Regulations 2013

Consultation process - To commence in April or October 2013

Consistency/convergence with:

- Existing requirements to report GHG emissions (CRC, EU ETS)
- Companies Act requirements
 - Financial statements
- Other jurisdictions?

Organizational boundary approach	Number of companies
Equity share	17
Financial control	103
Operational control	244
Other	<u>38</u>
Total	<u>402</u>

- **Political and policy-related** – negotiating alignment
- **Technical** – boundary setting, measurement, materiality, accounting for carbon instruments
- **Practical** – getting information, capacity building, systems, resources
- **Communication** – expressing performance, KPIs, technology for effective communication
- **Mechanisms for review** – assurance, enforcement, oversight etc





“We found that if listed and state-owned companies were to release reserves for burning at equal rates, there would be 80 per cent more fossil fuels listed on stock exchanges than society can afford to burn...”

“..as HSBC research concluded in June, current valuations of coal assets held by the four mining majors listed on the London Stock Exchange could be cut by as much as 44 per cent if investors assumed certain constraints on carbon post-2020.”

www.carbontracker.org

- Support sector specific initiatives (IPIECA, WBCSD led etc)
- Leverage shared characteristics & existing mechanisms – coalesce around widely adopted practice
- Eliminate duplication (eg through exceptions) and addition of new requirements
- Harmonization activities within regions – USA, Canada and Europe
- Common language and definitions
- Rigor and stringency to avoid perceptions of green-wash
- Advocacy (Coalition on corporate sustainability reporting)
- Rio + 20 – Friends of paragraph 47
- European Communication on CSR
- Institutional home
- Extend Consistency Project model of inventory and analysis

Thank you

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