CARBON DISCLOSURE PROJECT

CDSB Climate Disclosure Standards Board

CDP-CDSB Response to Defra Consultation

Consultation on greenhouse gas emissions reporting draft regulations for quoted companies

October 2012

An introduction to CDP

"The first step towards managing carbon emissions is to measure them because in business what gets measured gets managed. The Carbon Disclosure Project has played a crucial role in encouraging companies to take the first steps in that measurement and management path."
Lord Adair Turner, Chairman, UK Financial Services Authority

"Climate change is one of the greatest challenges of the 21st century… It is extremely important for investors to take account of climate change in their decision making. I wish the Carbon Disclosure Project success with its further efforts both in Germany and worldwide."
Dr Angela Merkel, German Chancellor

"The Carbon Disclosure Project is vital and we've got to get everybody to participate in it. Climate change is a problem of prosperity and of unexamined processes and making investment decisions which may have made sense yesterday, but don't make sense for tomorrow."
Former US President Bill Clinton

Carbon Disclosure Project (CDP)

The Carbon Disclosure Project (CDP) is an international, not-for-profit organisation providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. CDP harnesses the power of market forces to collect information from companies on their greenhouse gas emissions and assessment of climate change and water risk and opportunity. CDP now holds the largest collection globally of primary climate change and water data and puts these insights at the heart of strategic business, investment and policy decisions. Please visit www.cdproject.net to find out more.

CDP now operates various major programmes:

Investor CDP is the largest collaboration of investors in the world and generates essential climate change information that helps drive capital flows to a low carbon economy. In 2012, 655 institutional investors with assets of US$78 trillion were signatories to Investor CDP, including Allianz, Axa, Goldman Sachs and HSBC. Over 4,000 organisations in some 60 countries around the world disclose their greenhouse gas emissions and climate change strategies through CDP.

CDP Supply Chain helps global corporations to understand the impacts of climate change across the supply chain, harnessing their collective purchasing power to encourage suppliers to disclose climate change information, targets and progress. Over 50 corporations including Ford and Unilever are members of CDP Supply Chain.

CDP Water Disclosure provides critical water-related data from the world's largest corporations to inform the global market place on investment risk and commercial opportunity. In 2012, over 470 institutional investors representing US$50 trillion in assets were signatories to CDP Water Disclosure and 345 companies responded to the request.

CDP Cities provides a global platform that allows city governments to publicly disclose climate and water information. CDP Cities allows city governments to demonstrate their commitment to transparency and facilitate the sharing of emissions data. 73 cities and local governments from around the world disclosed to CDP in 2012.

Forest Footprint Disclosure Project (FFD), a project pioneered by the Global Canopy Programme (GCP) with the support of the UK Government, was launched in 2009 to assist companies and their investors worldwide in understanding and addressing their exposure to 'forest risk commodities'. Today, investors with over USD $7 trillion in assets under management back FFD. This year CDP and GCP announced an alliance that will see FFD merge with CDP over the next two years. This strategic merger by CDP and GCP will bring corporate disclosure on the earth's atmosphere, water and forests under one roof, resulting in the world's largest and most comprehensive natural capital disclosure system, and will provide companies and investors with a single, integrated source of information for these interrelated issues. For more information about FFD go to: http://www.forestdisclosure.com

"We need a method and system that works and one that will drive behaviour change from business, which is why this reporting is to be introduced. We believe the Climate Disclosure Standards Board (CDSB) framework which links carbon footprint to strategy risk and performance is the best way to achieve this."
Michael Izza, ICAEW's Chief Executive

Climate Disclosure Standards Board (CDSB)

The Climate Disclosure Standards Board (CDSB) was formed at the 2007 annual meeting of the World Economic Forum (WEF). CDSB is an international organisation committed to the integration of climate change-related information into mainstream corporate reporting. CDSB works with leading professionals in accountancy, business, standard-setting and regulation to develop and advocate a generally-accepted global framework for use by corporations in disclosing climate change-related information in mainstream corporate reporting.

In support of its objectives, CDSB has developed a Climate Change Reporting Framework (found at www.cdsb.net/ccrf) by drawing on the work of its Board members, on international developments in climate change regulation and on the work of the International Accounting Standards Board. Technical Working Group members include representatives of the major accounting firms, as well as national and international accounting bodies.

By utilising these sources, as well as experience of ten years good practice in climate change-related disclosure to CDP by thousands of companies worldwide, CDSB's Framework prescribes reporting requirements that are as consistent as possible with the most common features of voluntary and mandatory climate change disclosure and with the established financial reporting model.

CDSB is a special project of CDP. In this capacity CDP drives CDSB's work programme and acts as the Secretariat, responsible for advancing the CDSB Framework in association with members of the CDSB Board, Advisory Committee and Technical Working Group. For more information see www.cdsb.net.

Through its consistency in climate change disclosure project work, www.cdsb.net/consistencyreport , CDSB has tracked the regulatory activity of various jurisdictions regarding climate change-related reporting. In the USA and Australia, greenhouse gas emissions reporting requirements have been introduced by environment regulators in specific environmental regulations (the USA EPA Greenhouse Gas Reporting Program and the Australian National Greenhouse and Energy Reporting Act). The audience for disclosures in both cases is the environmental regulator. Both jurisdictions have dealt with the risks relating to climate change under separate corporate/securities legislation (the US Securities Act 1933 and the Australian Corporations Act). We note that the UK has adopted a different approach by including the draft greenhouse gas reporting rules in corporate law designed to elicit information required by investors. We do not offer a view on the relative merits of each approach. However, as explained below, we observe that the approach chosen by the UK leaves some questions to be answered on what constitutes compliance with the draft regulation.

CDSB gratefully acknowledges the financial and technical support Defra has provided to CDSB since it was convened at the WEF meeting in 2007 which was attended by former Secretary of State for Environment, Food and Rural Affairs, David Miliband.

Consultation Response

Introduction

The Carbon Disclosure Project (CDP) and the Climate Disclosure Standards Board (CDSB) welcome the UK Governments' move to introduce regulation requiring quoted companies to report on their greenhouse gas emissions within the Directors' Report to meet the Government's climate change objectives and Defra's invitation to comment on the draft regulations.

CDP holds the largest database of corporate environmental information in the world and has been operating for over a decade.

- In the UK, CDP requests climate change information about emissions, strategy, risks and governance from the largest 615 companies listed on the London Stock Exchange (FTSE All Share) on behalf of 655 investors with US $78 trillion of assets. In 2012, 325 UK companies responded to the CDP Investor Information Request including 96% of the FTSE 100 and 69% of the FTSE 350.

As stated in our joint response to Defra's 2011 consultation on mandatory Greenhouse Gas Reporting, CDP and CDSB support mandatory carbon reporting by British business on the basis that it is likely to:

- Provide transparent, comparable and vital information for shareholders;
- Give greater clarity and consistency for long-term planning for business;
- Encourage behavioural change and carbon reduction amongst business, as measurement leads to management;
- Accelerate the transition to a low carbon – and therefore more resilient – economy in the UK;
- Inform investors and markets of the potential financial impacts of climate change on business; and,
- Support government objectives to manage, mitigate, and reduce the scale of the negative effects of climate change.

CDP and CDSB also believe that provisions should be pragmatic and effective in achieving policy objectives and therefore must be:

- Practical for companies to implement and supported by appropriate tools and guidance (such as XBRL) so as not to add unduly to administrative burdens;
- Developed and prepared through a process of consultation and collaboration between all relevant parties, including corporations, investors, governments and NGOs, making use of latest scientific advice;
- Designed to meet the needs of investors (as the primary user group of information provided in annual reports) by eliciting business-relevant and material information;
- Supported by a compliance, assurance, verification and enforcement infrastructure proportionate and in line with new regulation;
- Based on and compatible with international developments in climate disclosure and reporting (such as the GHG Protocol, ISO suite, CDM methodological framework, regulatory developments and CDSB's Climate Change Reporting Framework which is linked to CDP's XBRL taxonomy), in order to prevent overburdening companies that operate across national borders.

We have made our comments in the light of the principles listed above.

General comments in response to consultation

Some of the points made in our response below relate to two general points of principle.

First, the placement of the GHG emissions reporting requirements within the Companies Act 2006 imposes restrictions on the application of the regulations in ways that we do not think were envisaged. This particularly manifests itself in the tension between the intention of the Climate Change Act for companies to report on GHG emissions *for which they are responsible* and the organisational boundary constraints of the Companies Act discussed below.

Secondly, if, as we suspect, the draft regulations apply to all GHG emissions of a UK quoted group whether arising in the UK or overseas, there are tensions between the proposed regulations and the GHG emissions reporting rules already on statute in some jurisdictions (see CDSB's Consistency Project report available at http://www.cdsb.net/priorities/the-consistency-project/). In practice, we suspect that corporate groups will compile their consolidated GHG emissions inventories by aggregating results prepared according to multiple methodologies.

In both cases, it is the prescriptions and constraints of the Companies Act that causes the difficulty rather than the regulation itself. We do not think that such constraints were intended by DEFRA. We believe that DEFRA's plans were to leave existing good practice on GHG emissions reporting undisturbed as far as possible, but these plans have been unwittingly frustrated by the constraints of the primary law that will incorporate GHG emissions reporting regulations.

Despite these potential difficulties, we repeat our strong support for the regulation and suggest possible solutions below.

We would welcome views on whether the regulations should come into effect for reporting years ending after 6 April 2013, or be timed to come into effect at the same time as the BIS regulations, which is likely to be for reporting years ending after 1 October 2013.

1. Our recommendation is that the regulation should come into effect from the earliest possible date, that is from April 2013. There might be some benefit in aligning the commencement date with announcements made by BIS or the European Commission on narrative reporting requirements that might have a bearing on greenhouse gas (GHG) emissions disclosure. However on balance, our preference is that the regulation should come into effect from April 2013 so as not to cause undue delays and so as to provide Defra sufficient information to conduct their review within the anticipated timescale.

2. We note the Government's proposal that the regulation should come into force for reporting years ending after the commencement date (whether April or October 2013). As currently drafted, this means that a company whose year ends on (say) 31 May 2013 would have to prepare its first GHG emissions information for the period 1 June to 31 May 2013 if the regulations were to come into force from April 2013. Effectively this means that the regulations could apply retrospectively to periods when companies were not anticipating the introduction of GHG emissions reporting requirements. We therefore recommend that the new regulations should take effect for reporting years beginning after April 2013 so that companies have adequate lead in time to introduce systems and processes required to comply with the new regulations. Once the rules are in the public domain though, there would be nothing to prevent early adoption by those companies that are already able to comply.

Directors may wish to refer to the Government's Guidance for further information on how to measure and report GHG emissions: part 4 provides an explanation on the type of activities which produce direct and indirect emissions, and part 6 explains the information needed to calculate GHG emissions. Your views on how this Guidance could be developed to aid support of companies are welcome.

3. We recommend that the Government's Guidance is updated to assist multinational companies that are subject to statutory GHG emissions information reporting requirements in more than one territory. We note that neither the draft regulations nor the accompanying consultation document make it clear whether UK companies within scope of the law have to report GHG emissions information for overseas operations[1]. CDP strongly advises clarifying this point in order to provide a complete understanding of companies' emissions profile and risk. Assuming that the basis for the preparation of financial statements specified in the Companies Act applies equally to the preparation of GHG emissions results, we contend that parent companies caught by the new rules must report GHG emissions from any undertakings included in their consolidated financial reports, whether based in the UK or overseas. We know from CDP's experience that for many reasons, UK parent companies have difficulty in obtaining GHG emissions information from their overseas based operations and that specific accounting or calculation rules might not align well with current voluntary guidelines. We therefore encourage the UK Government to provide guidance regarding the compilation of information about GHG emissions from overseas sources and whether it should conform to practices used to prepare UK GHG emissions information even where an overseas regulator might require a different approach. In order to avoid duplication of effort, we encourage the UK Government to make clear that multiple methodologies can be used to prepare GHG emissions information; provided that those methodologies satisfy certain criteria (see our comments on Regulation 4 below). Given that GHG emissions results from non-UK operations will most likely be prepared by reference to locally prescribed methodologies, we suggest that the UK Government Guidance recommends segmentation of GHG emissions results by country, so that the reader can distinguish GHG emissions prepared by reference to different methodologies.

[1] Preliminary analysis of CDP data for 2010 emissions revealed that UK listed companies that reported to CDP had a large majority of emissions overseas, namely in USA and India, and generally spread all around the world.

We also strongly recommend that the UK Government allows a transition phase of twelve months for UK parent companies to work with their overseas operations on delivery of GHG emissions information.

4. It is important that the Governments' Guidance references existing frameworks and processes that can help companies to measure and manage their climate change impacts and which will be of use in complying with the regulation. Options on the list should include responding to the Carbon Disclosure Project as a way of systematically compiling corporate climate data, see: https://www.cdproject.net/en-US/Respond/Pages/carbon.aspx. Guidance should be aligned with major initiatives in the GHG accounting field and should, more than simply reiterate what is defined there, reference and explain the relevance of each of the information requirements presented in the Directors' Report, so that preparers and users of information fully understand what it means, how it can be used and its limitations.

5. We recommend that UK Government's Guidance helps companies to understand whether and to what extent they are entitled or required to apply materiality determinations or de-minimis criteria in preparing GHG emissions results for inclusion in their Directors' Report. Rather than prescribing a quantitative "bright-line" test, we suggest that the sentiment of section 417(5) of the Companies Act 2006 is extended to apply to GHG emissions reporting. Section 417(5) imposes additional requirements on quoted companies (the same population affected by the draft regulations) preparing a business review only to the extent necessary for an understanding of the performance, position or development of the company. Although the new draft regulation is separate from the provisions of Section 417(5), we think that there is a presumption by some companies that the constraints suggested by Section 417(5) can also be applied to GHG emissions reporting because Section 417(5) applies to the same population (i.e.: quoted companies) and to the same subject matter (environmental matters). Particularly in the first years of its application, we think that there should be leeway for companies to make decisions about which GHG emissions results are most material for them to include in the Directors' Report. The time and effort involved in calculating GHG emissions from insignificant sources that present no risk to either the company or its investors seems unjustified. Over time, of course, this might change. However, initially, companies will need some guidance on whether they have to calculate and report on all GHG emissions sources within the reporting boundary or only those that are material or necessary for an understanding of the performance, position or development of the company (to adopt language from the Companies Act). If some leeway is allowed, we recommend that the regulations also require companies to make a "statement of conformance" or a similar declaration along the lines of paragraph 2.22 of the CDSB Climate Change Reporting Framework. This ensures that where companies have excluded certain GHG emissions sources based on their judgement about what is necessary for an understanding of its performance, position or development, the reader is informed accordingly.

6. We understand that the new regulation cannot impose requirements for reported greenhouse gas information to be verified or assured. However, guidance should encourage third party verification of emissions data as best practice in corporate reporting. In addition companies should be provided with information about the best or most commonly used verification and assurance standards that may be applied for this purpose.

We wish to make a number of additional comments, which are grouped by topic below.

Organisational Boundaries

The new regulation will add requirements to existing duties to prepare a Directors' Report, which falls within Part 15 (encompassing sections 380 – 474) of the Companies Act 2006.

Section 399 says that, *except where they are subject to the small companies regime or exempt from the requirement, a parent company must prepare group accounts (as well as individual accounts)*.

Section 403 provides that for certain companies (which we believe to include quoted companies), *the group accounts must be prepared in accordance with International Accounting Standards, that is International Financial Reporting Standards following their adoption by the EU for periods commencing on or after 1 January 2005.*

Section 415 says that *for the financial year for which a parent company is required to prepare group accounts, the Directors' Report must* *be a consolidated report relating to the undertakings included in the consolidation.*

This suggests that the basis used for preparing a Directors' Report must be the same as the basis used for preparing group accounts either under existing IAS 27 or the revised IFRS standards on consolidation, IFRSs 10, 11 and 12, effective for periods beginning on or after 1 January 2013. This is also supported by section 416(b). If this is the case, we encourage the UK Government to provide guidance on what this means. Sustainability practitioners and those charged with responsibility for preparing GHG emissions figures may not be familiar with the differences between recognised organisational boundary approaches to carbon reporting and accounting rules on consolidation.

Whilst Part 15 suggests that boundaries for GHG emissions reporting must be drawn in the same way as for financial reporting, draft Regulation 3(1)(a) and (b) states that the Directors' Report should include GHG emissions from stationary and mobile combustion "operated, owned or controlled" by the company. This wording suggests some leeway in the approach to boundary setting.

Despite the wording in proposed new regulations 3(1)(a) and (b) which suggests that the reporting boundary can be drawn according to operational or financial control or equity share, we doubt that this level of leeway was intended. We do not think that the regulations can override the requirements of sections 399, 403 and 415 of the Companies Act. Therefore, we believe that reporting boundaries for GHG emissions reporting must be the same as for the financial statements and Directors' Report.

This could present some practical challenges for companies in the first instance if it:

a) Involves a change in boundary setting from their existing practices. According to CDP statistics, operational control is the most commonly used boundary for preparing GHG emissions information; and/or

b) Would exclude GHG emissions sources that might present the company with risk or opportunity or over which the company has some influence through operational control. For example, if the majority of a company's GHG emissions arise from activities that take place on premises leased from or operated on behalf of a third party, the regulations suggest that those emissions do not have to be disclosed. Arguably, this gives stakeholders a limited or misleading view of the extent to which the company is exposed to risk or able to influence GHG emissions.

CDP and CDSB therefore recommend that guidance accompanying the regulations should make it clear that the law sets out minimum requirements (i.e. to report GHG emissions for entities consolidated for financial and directors reporting purposes). Where it is necessary for an understanding of the company's business and its risks and opportunities, guidance should encourage the provision of information above and beyond minimum requirements although such information should be separately itemised or broken down in the Directors' Report to distinguish it from data required to satisfy minimum requirements. We urge the UK Government to include particular guidance for companies that own buildings and machinery that are leased to third parties or that occupy premises or use buildings that are leased from other parties or that enter into joint ventures for the use of buildings or machinery. Such guidance should make clear which party to the lease agreement is responsible for collecting and reporting GHG emissions information in compliance with the regulations.

We draw attention to the fact that these issues have already been considered and addressed, at least partially, in the development of the CDSB Climate Change Reporting Framework - Edition 1.1. The approach outlined in paragraphs 4.22 – 4.27 might offer some solutions to the organisational boundary issues described above.

As the Companies Act 2006 covers emissions under the financial consolidation boundary and the Climate Change Act 2008 refers to the measurement of GHG emissions from activities for which companies "are responsible" (e.g. sources they operate or control) it seems to us that there might be merit in Government considering whether the "interpretations" section of the new regulations should point to the language of section 87 of the Climate Change Act 2008. This would provide greater clarity and consistency for business as well as ensuring that emissions are captured from the widest and most appropriate boundary. Of course, Government would also need to define the phrase "activities for which companies are responsible" and we would suggest as a starting point, including those emissions outlined in paragraph 4.26 (Part 2 GHG emissions) of the CDSB Climate Change Reporting Framework - Edition 1.1.

Alternatively, the words "operated, owned or controlled" could simply be deleted from paragraphs 3(a) and 3(b) of the regulation. With or without those words, we believe that the financial consolidation boundary applies to GHG emissions required under the Companies Act as described above.

Scope

7. CDP supports the definition of "company" in the draft Greenhouse Gas Emissions (Disclosure) Reporting Regulations 2013 as meaning a quoted company within the meaning of section 385(2) of the Companies Act 2006. The companies within scope are already required to disclose information about environmental matters under section 417(5) (b) of the Companies Act 2006. Roughly 27% of the companies concerned already respond to the Carbon Disclosure Project. On the basis that "relevant information" (as defined in draft Regulation 3) is consistent with requirements already specified by CDP, we support the draft Regulations as not imposing additional reporting burdens on UK companies.

Narrative Reporting

8. We note that the draft Regulations do not include any narrative reporting requirements. We believe that GHG emission results are difficult for investors (or others) to interpret without accompanying narrative disclosures explaining the company's GHG emissions profile and risks. We therefore recommend that the Regulations are extended to cover at least the points listed in section 4.31 of CDSB's Climate Change Reporting Framework (found at www.cdsb.net/ccrf on page 25) or that such requirements are included in narrative reporting rules specified by BIS and cross referenced as appropriate.

Verification

9. As noted in point 3 above, we feel strongly that third party verification or assurance of reported emissions data should be the norm rather than the exception, and that the new regulation or accompanying guidance should send this signal clearly to companies. If it is not possible to include this point in the regulation itself then it should be expressed very clearly in the accompanying guidance. Guidance should also explain whether and how existing verification or checking processes apply; such as to companies covered by the CRC Energy Efficiency Scheme, this may be relevant in terms of communicating what actions companies have taken to verify GHG emissions information.

10. Of the 69% of the FTSE 350 companies that responded to CDP in 2012, 33% verified their Scope 1 greenhouse gas emissions, 31% scope 2 and 17% scope 3. It is clear to us that leading companies are now doing this as a matter of course, a trend that should not be accidentally discouraged by any ambiguity in the signals sent by government. CDP incentivises verification by restricting access to its Climate Performance Leadership Index to

companies which have gained appropriate third party verification for their emissions data and we would expect government also to seek to encourage this behaviour by companies.

Regulation 3 – Disclosure of relevant information about greenhouse gas emissions in a Directors' Report

11. We note that regulation 3(1) covers greenhouse gas emissions from direct stationary and mobile combustion and from manufacturing processes. Fugitive emissions are covered by regulation 3 (2) and Scope 2 emissions are required under regulation 3(3). Some commentators will note the absence of a requirement to report Scope 3 emissions. However, we support the omission of requirements on Scope 3 GHG emissions reporting at this stage pending further testing of the new WRI/WBCSD standard on Scope 3 reporting. We propose that in the 2015 review of the regulations consideration is given to adding a requirement for some scope 3 emissions to be reported.

12. We recommend that to avoid any potential confusion the word "leakage[2]", which has a different and very specific meaning within greenhouse gas accounting terminology, be replaced by another less ambiguous term such as "fugitive emissions".

13. We recommend that the wording of 3(3) be amended to read: "…equivalent resulting from purchase and consumption of electricity…" in order to avoid any reporting difficulties for companies that participate in power trading markets.

14. We recommend that in order to achieve comparable and high-quality reporting the guidance to the regulation should provide clarity to reporting companies on the emissions factors that are to be used in calculating Scope 2 emissions, in particular for the consumption of renewable electricity. This is a notoriously difficult area of greenhouse gas accounting, which becomes more complex for companies that have overseas operations, and/or are involved in power purchase agreements or the sale or purchase of market instruments for renewable electricity.

15. We recommend that the regulation is clear about the greenhouse gas emissions that should be considered for the purpose of the report. We call attention to the fact that, although most reporting schemes still refer to the 6 gases (or group of gases) regulated under the Kyoto Protocol, there are already schemes going beyond that set of gases. For simplification purposes, we would recommend that the regulation limits itself for now to the 6 Kyoto gases or group of gases (CO2, CH4, N2O, SF6, PFC's and HFC's).

16. We further recommend that the regulation is clear about the global warming potentials that should be used for the purposes of calculating the CO2 equivalent figures. While a majority of schemes do still use the Global Warming Potential (GWP) under the Kyoto Protocol and established in the Second Assessment Report of the IPCC, there is an increasing and growing practice of reporting using the latest available GWP as published under the periodic assessments of the IPCC. Use of different Global Warming Potential (GWP) can cause significant variation and comparability issues if companies report significant CO2 emissions form non-CO2 gases – which is not the case for most companies. If a recommendation cannot be issued, then we would advise that there be transparency on the specific GWP that has been used to produce the figures.

Regulation 4 – Methodology used to calculate emissions

17. We refer you to paragraphs 18 and 19 of CDSB's Consistency Project report for analysis showing the number of methodologies companies use to prepare their GHG emissions results. Even in countries where GHG

[2] In GHG accounting and in climate policy "leakage" is usually referred to the situation of trying to control GHG emissions of a set of sources causes unintended increases of other (different) sources, which can partially or wholly offset the intended reductions.

emissions reporting is mandated, evidence suggests that a number of different methodologies are used to prepare results. It is wrong to assume that GHG emissions may be calculated using one methodology only. We therefore recommend that regulation 4 is amended to refer to "methodology or methodologies" used to calculate emissions. Although we understand the UK Government's desire not to disturb unnecessarily existing GHG emissions calculation practices, we are concerned to see that the draft regulations do not prescribe one or more specific methodologies for calculating GHG emissions. There is overwhelming evidence (to which we can refer Defra) that investors are anxious for consistent and comparable GHG emissions information. In the absence of one or more prescribed methodologies, such consistency and comparability will be difficult to achieve and companies will be left wondering how to comply with the regulation. If Defra is unable to address this in the regulations, we strongly recommend that supporting guidance encourages companies to use one or more "recognised schemes" in line with the approach specified in paragraph 4.20 of CDSB's Climate Change Reporting Framework. At a minimum, we suggest that the regulations specify the coefficients (e.g.: Global Warming Potential and guidance on how to select appropriate Emission Factors, as mentioned in previous heading) to be used for calculating GHG emissions.

18. We suggest that the Government should be clear in the regulation as to whether companies must provide a total gross emissions figure for greenhouse gas emissions, and whether it is also permissible to provide a net figure calculated by e.g. subtracting a figure based on purchased emissions offset certificates. This issue is covered in the current UK voluntary guidance and should also be clarified here. We recommend that netting emissions should not be allowed as a practice as it deviates from all major and established GHG reporting standards. We recommend instead that the retirement of any credits for purposes of offsetting emissions to be reported as a separate item. In case it is allowed, a Quality Assurance Scheme as previously existent under DECC should be in place to assure minimum quality criteria are set for the purposes of producing net emissions figures.

Regulation 5 – Reporting of emissions from activities subject to other reporting regulations

19. We welcome the fact that the draft regulation recognises other provisions that impose similar requirements on corporations. We strongly recommend a review of all requirements applicable to UK companies with a view to increasing policy coherence and alignment of those requirements. Meanwhile, we believe that regulation 5 should minimise corporate reporting burdens by specifically stating that GHG emissions information prepared for any of the purposes listed in sub paragraphs (a) – (c) shall be treated as satisfying the requirements of the draft regulation.

Regulation 6 – Carbon intensity ratio

20. We support the requirement for companies to report an intensity ratio in the Directors' Report as we are aware that this type of metric is useful to investors. However, we recommend that guidance carefully clarifies the boundaries to be used for such metrics. This is because the boundaries that apply to companies within scope under the Companies Act may differ from the boundaries that companies use for reporting to CDP or in their Sustainability Reports. In practice, CDP information shows a very wide range of approaches to measuring performance by reference to intensity ratios. We urge the UK Government to refer to the evidence in the CDP database when updating its guidance on intensity ratios and suggest that characteristics of useful ratios should be specified along the lines of paragraph 2.38 of CDSB's Climate Change Reporting Framework. We recommend that Defra considers requiring all companies to report against a standard intensity ratio, for example, based on turnover to aid comparability.

Regulation 7 – First reporting year

21. We support the requirement for companies to show GHG emissions information for the reporting year and the previous 1 – 3 years for comparison and so that investors can track performance year on year. However, we recommend that the requirement to repeat information should be restricted to information for the preceding two reporting cycles so as to avoid "clutter" in business reviews.

22. We urge the UK Government Guidance to clarify whether the first reporting year is expected to equate with a fixed year base period or whether a rolling base year will be allowed as provided for in Annex J of the current DEFRA guidance on how to calculate your GHG emissions. We also recommend that guidance on baseline recalculation policy should be specified if this cannot be covered in the regulation.

23. Financial and sustainability reporting periods sometimes differ and have different sign off and verification processes. Proposed regulation 7(4) seems to cater for this by allowing companies to report GHG emissions information for a period of 12 months that differs from the year to which the Directors' Report relates, provided that the use of a different period is disclosed. We welcome the flexibility afforded by the regulations, which recognises the different reporting deadlines to which companies are working for financial and sustainability disclosure purposes respectively. However, differences in the period for which GHG emissions information and the period for which other information required under the Companies Act is prepared might present challenges when it comes to compliance with requirements under regulation 6 to include an intensity ratio in the Directors' Report. This is because the numerator and denominator used to construct the intensity ratio should ideally be based on data relating to the same period. Whilst we believe that the period for which financial and sustainability information is reported should eventually align (for consideration in the 2015 review of the regulation), at this stage in the development of reporting, we strongly support the flexibility afforded by regulation 7(4) to treat a different period of 12 months as being coterminous with the period covered by the Directors' Report.

Conclusions

24. We repeat our support for the draft regulation. However, as noted above, we have reservations that unless the tensions between the intention of the regulations and the constraints of the Companies Act are resolved and in the absence of more detail about how a company is expected to comply with the requirements, reporting entities and users of information will not achieve the certainty, consistency and comparability that the overwhelming body of research suggests they want. Given that the priority is for companies to start reporting their GHG emissions information, we recommend that, at least for a transitional period, the CDP reporting system is considered as the mechanism for delivering information in satisfaction of the Regulation. Pending clarification on the matters outlined above, the CDP system offers the transparency and the flexibility that allows companies that are currently not reporting their GHG emissions to build capacity to comply with the requirement to deliver information. CDP's system provides for disclosure according to CDSB's Climate Change Reporting Framework as an appropriate standard for making disclosures about climate change in the Directors' Report and allows companies to benefit from CDP's extensive experience in and guidance about climate change disclosure. CDP is also working on development of the XBRL Climate Change Reporting Taxonomy as a means for companies electronically to tag their information; as we expect the EU to mandate XBRL for all business reporting within the next five years, we hope that it would benefit the UK Government to include options for or a combination of these tools and mechanisms for reporting in the new regulation.

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