CDP & CDSB's Response to UK Government's "Smarter Guidance & Data" Review

March 2014

CDP

CDP is an international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. We work with market forces to motivate companies to disclose their impacts on the environment and natural resources, as well as take action to reduce them. CDP now holds the largest collection globally of primary climate change, water and forest-risk information and puts these insights at the heart of strategic business, investment and policy decisions. Please visit www.cdp.net to find out more.

CDP Programmes

CDP engages with investors, companies and cities. It also operates various major programmes:

Climate Change

CDP's climate change programme works to reduce companies' greenhouse gas emissions and mitigate climate change risk. We request information on the risks and opportunities of climate from the world's largest companies on behalf of 767 investor signatories with combined assets of US$92 trillion.

Water

CDP's water programme provides critical water-related data from the world's largest corporations to inform the global market place on investment risk and commercial opportunity. 573 institutional investors representing US$60 trillion in assets are signatories to CDP's water programme.

Forests

CDP's forests programme helps companies and their investors in understanding and addressing their exposure to forest risk commodities, such as cattle, biofuels, palm oil, timber and soy. CDP's forests programme acts on behalf of 240 signatory investors representing US$15 trillion in assets.

Supply Chain

CDP's supply chain programme helps over 60 global corporations to understand the impacts of climate change and water across the supply chain, harnessing their collective purchasing power to encourage suppliers to disclose climate change information, targets and progress.

Cities

CDP's cities programme provides a global platform that allows city governments to publicly disclose climate and water information. 110 cities and local governments from around the world disclosed to CDP cities programme in 2013.

CDSB

CDSB is a consortium of business and environmental organisations formed at the World Economic Forum's annual meeting in 2007. CDSB has developed and advocates an international reporting framework for use by companies when making disclosures in, or linked to, their mainstream financial reports.

This initially focused on the risks and opportunities that climate change presents to a company's strategy, financial performance and condition. We are currently running a public consultation on expanding the scope to forest risk commodities and water (i.e. most of natural capital).

Our Framework is referenced by DEFRA as a standard that can be used to help comply with the new greenhouse gas emissions reporting requirements in the Companies Act. Please visit www.cdsb.net to find out more.

Introduction

The UK government's "Smarter Guidance and Data" review is aimed at ensuring that regulators are only asking for "essential data" from businesses and that it is simple for companies to comply with statutory reporting requirements. We are very concerned with the suggestion that new regulations requiring companies to report on their greenhouse gas emissions within the Directors' Report should be revoked *"if benefits are not realised of UK environmental policy".*

Policy Context

We have long supported mandatory environmental disclosure by UK quoted companies. We encouraged the UK government to introduce the regulation on corporate greenhouse gas emissions reporting (which came into force on 1 October 2013). Similar provisions exist in Denmark, France, South Africa, with others considering implementing these reporting requirements (e.g. Mexico). A growing number of Stock Exchanges are also currently reviewing listing requirements and considering requiring reporting of non-financial information, including environmental performance.

The current proposals to amend the EU accounting directives to include environmental information reflect the growing consensus by EU governments and regulators that the inclusion of this information is material to investors and other stakeholders. Moreover, it should be noted that the EU proposals (and the recent changes to the UK Companies Act) stem from previous changes to legislation providing for the inclusion of environmental key performance indicators. These provisions were largely ignored or poorly implemented, hence the recent revisions.

The proposals to amend the EU accounting directives will require European companies to report not only on climate change, but other environmental issues that are deemed material to shareholder value. As a result, when the directive is transposed into UK law it is likely that the current non-financial reporting provisions in the Companies Act will need to be strengthened.

We believe that it is both prudent and sensible to retain the current reporting provisions in the Companies Act to allow UK quoted companies to gain experience and confidence in reporting non-financial information. The transition to enhanced harmonised non-financial reporting across the EU will therefore be easier, thus giving UK quoted companies an advantage over their continental competitors.

Preliminary results from changes to the Companies Act

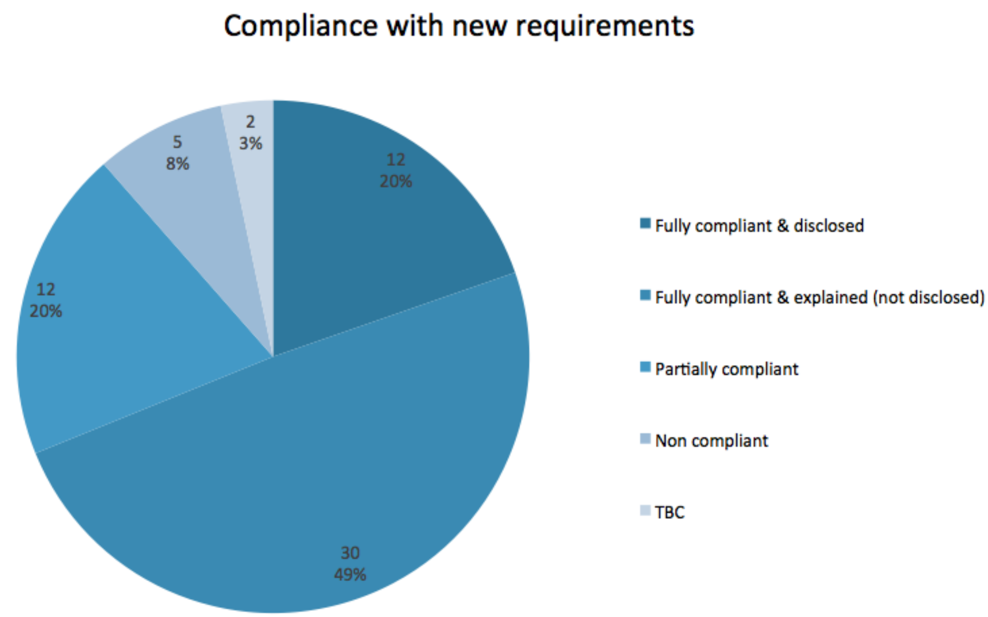
CDSB has reviewed and analysed how UK quoted companies have responded to the new requirements. Out of the 1,100 – 1,600 companies who are subject the new requirements, 61 companies from the FTSE 600 have reported and published their results as of 24 February 2014.

Comparing the reports with the new requirements and DEFRA's guidelines on corporate greenhouse gas emissions reporting, we assessed the following information:

- Tonnes of CO_2e for scope 1 and scope 2 emissions;
- Whether it used a robust and accepted method for reporting;
- GHG emissions over time;
- An emissions intensity ratio; and
- GHG emissions as a material risk to shareholder value.

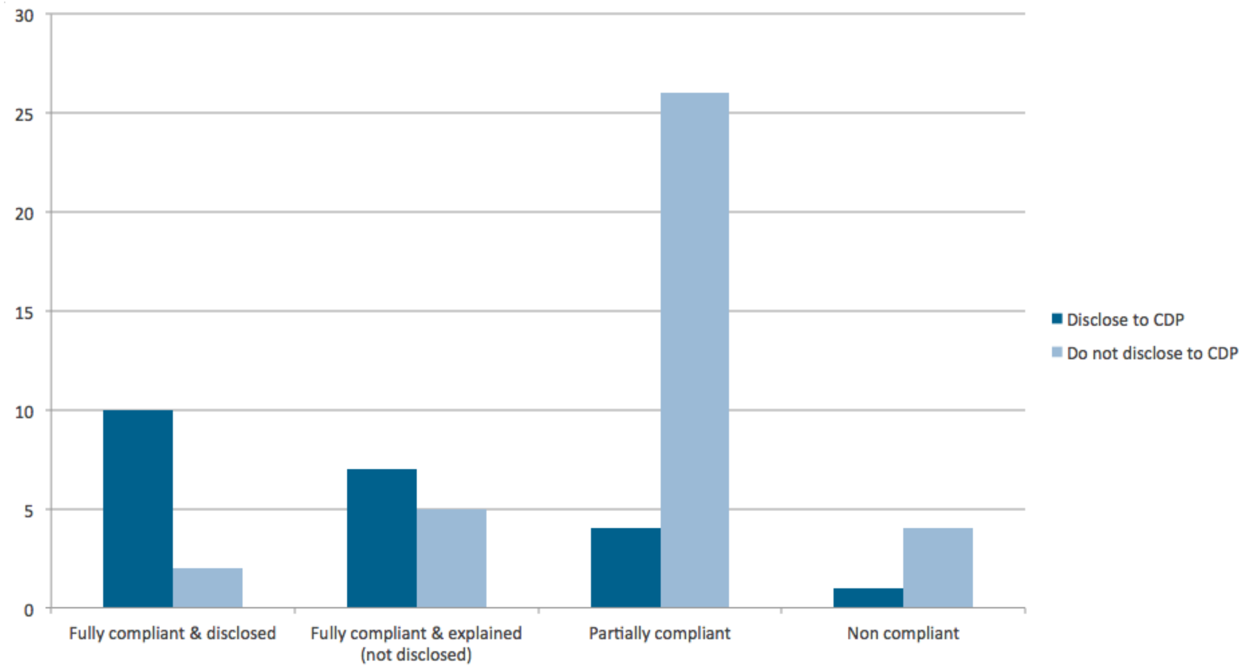
CDSB's analysis found:

- Only 20% (12 companies) fully complied and disclosed the key information to their shareholders;
- Half (49% - 30 companies) complied and explained why they did not need to disclose the information, as they believed they are not materially affected by climate change;
- Another 20% (12 companies) only partially complied. For example, some companies failed to follow the DEFRA guidelines and use an intensity ratio;
- Finally, 8% (5 companies) failed to comply completely.



CDSB also compared levels of compliance against existing participation in the voluntary CDP platform for climate change reporting[1]. A greater proportion of companies that failed to comply, or only partially complied, did not disclose through CDP. Conversely, those companies that fully complied also tended to report to CDP. This suggests that CDP responding companies are best placed to respond to the regulation and affirms our position that UK quoted companies should use these regulations as a stepping stone to enhanced non-financial reporting across the European Union.

[1] See https://www.cdp.net/en-US/Programmes/Pages/climate-change-programs.aspx



Other findings from the preliminary research include:

- Materiality is not clearly defined by companies;
- No clear correlation between materiality assessment and the discussion of risk in reports;
- Environmental performance is often disclosed in isolation without narrative;
- There is a lack of clarity on boundaries and intensity metrics;
- Additional guidance for practitioners, auditors, solutions providers, etc. would be useful

It is clear from initial analysis that despite quoted companies being some of the largest in the UK, the quality of reporting could be improved (especially by those that had not already been reporting climate information to investors via CDP). In particular, CDSB has been working with its partners and stakeholders on producing specific guidance[2].

CDSB's research suggests that the recent changes to the Companies Act are required to ensure all UK quoted companies failing to comply are required to report or explain the same information as their competitors are willing and able to report on, in addition to providing the material information shareholders and other stakeholders are increasingly requesting.

[2] See http://www.cdsb.net/resources/uk-mandatory-ghg-reporting-qa

Summary

This regulation in question was announced in June 2012 by the Deputy Prime Minister Nick Clegg at the UN Conference on Sustainable Development (also known as Rio+20) in Brazil, as part of the UK's response to the Rio+20 agenda. As we advocated during the proposal to adopt the regulations, we firmly believe the recent additional reporting requirements for UK quoted companies will:

- Provide transparent, comparable and vital information for shareholders, as well as greater clarity and consistency for businesses to plan for the long-term;
- Encourage behavioural change and greenhouse gas emissions reduction amongst business, as measurement leads to management;
- Accelerate the transition to a low carbon, sustainable and 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.

Moreover, the evidence to date suggests:

- Mixed results in terms of the quality of the non-financial information reported to date. However, we might expect this to improve by the end of this years reporting cycle and/or in future years.
- The current requirements are needed to ensure all UK quoted companies report this information adequately.

Conclusion

After only six months of the new regulations and with only 5% of companies having reported, it is too soon to draw any conclusions on the success or implications of the new reporting requirements in the UK. Furthermore, with the proposed changes to the EU accounting directives likely to be adopted, it is likely that the current non-financial reporting provisions in the Companies Act will need to be strengthened. Any action in the meantime would therefore be premature.

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