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Inventory of National and Regional Developments on Climate Change Related Disclosure

A report by the Climate Disclosure Standards Board

Produced under the overall direction of Ms. Lois Guthrie, Executive Director, CDSB.



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Abbreviations

| | |
|-------|---|
| ASB | Accounting Standards Board (United Kingdom) |
| ASX | Australian Stock Exchange |
| BIS | Department for Business, Innovation and Skills (United Kingdom) |
| CEBDS | Brazilian Business Council for Sustainable Development |
| CEPA | Canadian Environmental Protection Act |
| CSRC | China Securities Regulatory Commission |
| DECC | Department for Energy and Climate Change (United Kingdom) |
| DEFRA | Department for Environment, Food and Rural Affairs (United Kingdom) |
| EpE | Enterprise for the Environment |
| GAAP | Generally Accepted Accounting Principles |
| GHG | Greenhouse Gas |
| GRI | Global Reporting Initiative |
| IASB | International Accounting Standards Board |
| IBGC | Brazilian Institute of Corporate Governance |
| IOSCO | International Organization of Securities Commissions |
| ISAE | International Standard on Assurance Engagements on Greenhouse Gas Statements |
| ISAR | Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting |
| JICPA | Japanese Institute of Certified Public Accountants |
| JVETS | Japanese Voluntary Emission Trading Scheme |
| KPI | Key performance indicator |
| MD&A | Management's Discussion and Analysis |
| MMA | Ministry of the Environment (Brazil) |
| NGER | National Greenhouse and Energy Reporting |
| ORSE | Study Center for Corporate Social Responsibility |
| SEC | Securities and Exchange Commission (United States) |
| SGX | Singapore Exchange |
| WCI | Western Climate Initiative |
| WRI | World Resources Institute |
| WBCSD | World Business Council on Sustainable Development |

Executive summary

This study reviews climate change related reporting requirements in a sample of countries from around the world. At UNCTAD XII, member States called on UNCTAD, through ISAR, to continue to contribute to the field of environmental reporting with a view to promoting a harmonized approach among member States. As member States continue to work towards a new international agreement on climate change, corporate reporting on this subject remains important.

The findings of this study show that developed and developing countries around the world have different forms of climate change related reporting. The relevant provisions, however, are created and overseen by a mix of lawmakers, standard setters and industry best practice. Such provisions can be found in areas of: finance; energy and environment; stock exchange listing rules; corporate governance; trade and commerce; and corporate social responsibility. Furthermore, these provisions can take many forms, including: law aimed specifically at climate change mitigation; pollution control legislation; trading schemes; corporate governance codes; financial reporting and management commentary rules; company and environmental laws.

The absence of a single approach to the development of provisions and practices on climate disclosure across jurisdictions makes comparison of activities difficult, and complicates efforts to harmonize practices between countries. International cooperation is needed to promote harmonization and minimize the emergence of an array of differing and inconsistent approaches.

Introduction

1) Environmental reporting has been a subject of work for the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) for a number of years. The Group of Experts addressed this subject, for example, in the publication *Accounting and Financial Reporting for Environmental Costs and Liabilities* (1999) and the publication *A Manual for the Preparers and Users of Eco-Efficiency Indicators* (2003). Since ISAR began its work in this area, environmental reporting (and especially disclosure on climate change related emissions) has become increasingly important. At UNCTAD XII, United Nations member States called on UNCTAD, through ISAR, to continue to contribute to the field of environmental reporting with a view to promoting a harmonized approach among member States. Among the range of environmental issues that companies and communities face, reducing climate change related emissions has been identified by UN member States as a particularly urgent goal. As countries continue to work towards a new international agreement on climate change, corporate reporting on this subject remains important. The implementation of various policy options to curb climate change emissions will benefit from, or require, high quality reporting practices.

2) In UNCTAD's 2010 *World Investment Report*, it was observed that ISAR can facilitate an exchange of experiences between government regulators and various global multi-stakeholder initiatives working on standardizing climate change related reporting. Since that time, the CDSB has been working closely with the UNCTAD secretariat to assist in building consensus with a view to promoting harmonization between existing national regulatory and voluntary reporting standards.

3) This study was produced by the CDSB in collaboration with the UNCTAD secretariat.¹ The report provides a review of climate change related reporting requirements in countries around the world (table I). The purpose of this report is to develop an understanding of current climate change-related disclosure provisions and global trends in this area. Chapter I of this report provides a non-exhaustive inventory of national and regional laws, codes, guidance and practices (collectively referred to as "provisions") that directly or indirectly affect the way in which climate change-related information is reported by corporations.

Table 1. List of jurisdictions covered²

| | |
|---------------------------------|--------------------|
| 1) Australia | 9) Japan |
| 2) Brazil | 10) New Zealand |
| 3) Canada | 11) Singapore |
| 4) China | 12) South Africa |
| 5) Denmark | 13) Sweden |
| 6) European Union (at EU level) | 14) United Kingdom |
| 7) France | 15) United States |

¹ This document was prepared by the Climate Disclosure Standards Board (www.cdsb.net) which was produced under the overall direction of Lois Guthrie, Executive Director of the CDSB. The CDSB wishes to thank the UNCTAD secretariat for their assistance in producing this document, which included editorial comments and methodological guidance.

² Countries were selected based on the availability of information during the period of research. This is not an exhaustive list of countries where climate change reporting practices are being developed.

8) India

4) Certain established forms of reporting such as financial reporting and corporate governance disclosure are based on similar regulatory approaches around the world. The consistency of approach, regulatory oversight and content of such reporting requirements is in part attributable to the coordinating activity of organizations such as the International Accounting Standards Board (IASB) and the International Organization of Securities Commissions (IOSCO). By contrast, provisions relevant to climate change-related disclosure are created and overseen by a wide range of lawmakers, standard setters, and industry best practice, including provisions in the areas of: finance; energy and environment; stock exchange listing rules; corporate governance; trade and commerce; and corporate social responsibility.

5) Provisions that affect disclosure can be introduced by securities, financial, environment, energy and corporate governance regulators and policy makers, standard setters, stock exchanges, non-governmental organizations, investor groups and so on. The range of organizations involved varies from country to country as does the type of provision concerned. Provisions can take the form of law aimed specifically at climate change mitigation, pollution control legislation, trading schemes, corporate governance codes, financial reporting and management commentary rules, company and environmental laws. As well as provisions applicable to reporting organizations, some jurisdictions, notably the United Kingdom and South Africa, also set requirements for institutional investors to make disclosures about how environmental, social and governance issues are taken into account in their decision-making processes.

6) The lack of a consistent approach to the development of provisions and practices on climate disclosure across jurisdictions makes comparison of activities difficult. In the absence of such a single body of law or a single type of regulator responsible for climate change related disclosure, provisions take many different forms including:

- (a) Legal requirements also referred to as “mandatory” or “statutory” requirements or provisions; and
- (b) Standards, protocols, codes, principles, guidance etc:
 - i) developed through rigorous due process and stakeholder engagement; and
 - ii) referenced in legislation as representing the approach that should be taken to complying with legal requirements; OR
 - iii) that have become so widely adopted as to constitute de-facto standards; and
- (c) Government sponsored guidance. Normally, these are guidelines prepared by government departments, which, whilst not representing legal requirements, provide authoritative guidance on how to comply with legal requirements or are designed to encourage practices and behaviors that support policy objectives.

7) Provisions may be at State, Federal, National or regional level. (Global and sector specific provisions are considered in Chapter II.) Generally, provisions that affect climate change-related disclosure fall into one of the following two main categories:

- (a) ***Corporate governance reporting provisions*** that explicitly or implicitly require organizations to make disclosures in annual securities, company or financial filings about climate change risk management and strategies that are part of their corporate governance frameworks; and
- (b) ***Greenhouse Gas/Energy measurement and reporting provisions*** that prescribe rules and/or reference standards and/or methodologies that directly or indirectly affect the way in which greenhouse gases and energy consumption are monitored, measured, reported and/or traded.

8) The findings of this study show a number of developed and developing countries around the world are pioneering different forms of climate change related reporting. These efforts, however, lack harmonization and consistency. Greater international cooperation could usefully promote consistency between these emerging national initiatives.

I. National and regional developments on climate change-related disclosure

Country profiles

9) The profiles below highlight some of the main regulatory and other developments in the jurisdictions examined in this report. The profiles do not represent an exhaustive list of the relevant provisions in the countries/regions concerned. Rather, they are designed to illustrate the types of activity in progress around the world. Subject to the availability or relevance of information, for each country, an overview of disclosure provisions is provided. This is followed by details of any specific GHG measurement and reporting provisions and a brief analysis of the corporate response to demand for climate change-related information in the country concerned.

A) Australia

Disclosure Overview

10) In Australia, reporting provisions relevant to climate change information are included in legislation or guidance issued/administered by the Australian Stock Exchange, the Australian Securities and Investments Commission and the Department of Climate Change and Energy Efficiency.

11) The Australian Corporations Act 2001 provides that:

- (a) The financial report must disclose environmental information to the extent that it affects financial performance; and
- (b) The Director's report must disclose significant environmental regulation that affects the company's performance.

12) The Australian Corporations Act 2001 (section 1013D) requires providers of financial products with an investment component to disclose the extent to which labor standards or environmental, social or ethical considerations are taken into account in investment decision-making.

13) The Australian Stock Exchange (ASX) Listing Rule 3.1 requires disclosure of information that a reasonable person would expect to affect materially the price or value of an entity's securities. ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition), Principle 7 states that companies should establish a sound system of risk oversight and management. Commentary on Recommendation 7.1 states that material business risks may include operations, environmental and sustainability risks.

Greenhouse gas emissions disclosure

14) In September 2007, the Australian government passed the National Greenhouse and Energy Reporting (NGER) Act, supported later by NGER Reporting Regulations. The Act establishes a national framework for reporting GHG emissions, projects and energy consumption and production by Australian companies. Regulations set out the method for estimating emissions, energy consumption and energy production. The rules are supplemented by provisions on greenhouse and energy audits, including audits of compliance with one or more aspects of the Act or Regulations. Affected companies were first required to report in October 2009 for emissions between 1 July 2008 and 30 June 2009.

15) Provisions on GHG measurement have also been introduced at State level in Australia including in New South Wales, Queensland, South Australia, Tasmania and Victoria. Australian state and territory governments have agreed to a standard approach to greenhouse gas and energy reporting known as the National Greenhouse and Energy

Streamlining Protocol, which aims to reduce the red tape on business created by multiple and varying reporting requirements.

Corporate response

16) The ASX's review³ (published in August 2010) of corporate governance disclosures in annual reports for the year ended 31 December 2009 includes (at paragraph 36) the results of ASX's monitoring and reporting against the categories of risk referred to in the commentary to Recommendation 7.1. The review notes a significant increase in reporting on climate change policies over the reviewed periods as follows: 2007 – no reporting; 2008 – 1 per cent reporting; and 2009 – 4 per cent reporting.

B) Brazil

Disclosure Overview

17) Although legislation is not in place to require climate change-related information disclosures in Brazil, voluntary non-financial reporting in Brazil is prevalent. A 2009 report⁴ by the International Finance Corporation about Sustainable Investing in Brazil found that about 60 per cent of companies in the IBOVESPA⁵ publish sustainability reports, many of which are based on the sustainability reporting guidelines issued by the Global Reporting Initiative (GRI).

18) The Brazilian Institute of Corporate Governance (IBGC) publishes a Code of Best Practice of Corporate Governance, which provides that social and environmental concerns should be taken into account in defining businesses and operations of the company. Paragraph 2.40 of the IBGC Code provides that “at least once a year and with prior approval from the Board, every organization should disclose its policies and social, environmental, occupational and health safety practices.” Paragraph 6.1 of the IBGC Code provides that every organization should have a Code of Conduct that should also establish the social and environmental duties of the organization.

Greenhouse gas emissions disclosure

19) The Ministry of the Environment (MMA), the Brazilian Business Council for Sustainable Development (CEBDS), the Getulio Vargas Foundation Center for Sustainability Studies, jointly with the World Resources Institute, the World Business Council for Sustainable Development and other partners promote the Brazilian GHG Protocol Program for greenhouse gas emissions disclosure.

Corporate response

20) Twenty-seven companies participated in the first report on disclosure by Brazilian companies under the Brazilian GHG Protocol in 2009. As of 2011, over 70 Brazilian companies are participating in the voluntary programme on GHG emissions reporting.⁶

C) Canada

Disclosure overview

21) In Canada, the main provisions relevant to climate change-related disclosure are:

³ ASX Compliance (2010). “Analysis of Corporate Governance Disclosures in Annual Reports for year ended 31 December 2009”. www.asx.com.au

⁴ IFC (2009). “Sustainable Investment in Brazil 2009”. www.ifc.org

⁵ Index of companies listed on the Bovespa, Brazil's largest stock exchange.

⁶ For more information and complete list of participating companies visit: www.ghgprotocol.org/programs-and-registries/brazil-program

- (a) National Instrument 51-102 Continuous Disclosure Obligations (NI 51-102), which requires disclosures in Management's Discussion and Analysis (MD&A) about matters, including important trends, risks, commitments and uncertainties that would be material to investor decision-making, including environmental matters, and
- (b) National Instrument 58-101 Disclosure of Corporate Governance Practices also contains requirements on disclosure of risks.

22) On 27 October 2010, the Canadian Securities Administrators issued CSA Staff Notice 51-333 "Environmental Reporting Guidance". The Notice is designed to help organizations comply with existing disclosure requirements under National Instruments 51-102 and 58-101. According to a Deloitte publication, the guidance "is a clear signal to report issuers" noting that "effective disclosure on environmental matters is a mandate, not an option."⁷ Information is required on:

- (a) Environmental risks and related matters;
- (b) Environmental risk oversight and management;
- (c) Forward-looking information, for example goals and targets; and
- (d) Disclosure of environmental accounting matters (including liabilities and obligations).

23) Staff Notice 51-333 contains guidance on determining materiality in relation to environmental matters, requirements regarding the oversight, governance and management of environmental risks and how to make disclosures of forward-looking information. The notice states that the Canadian Securities Administrators will continue to monitor disclosure of environmental matters as part of their ongoing Continuous Disclosure review program.

24) The Annual Information Form filed by companies listed on the Toronto Stock Exchange calls for disclosures about the financial and operational effects of environmental protection requirements in the current and future years, steps taken to implement environmental policies fundamental to operations, and details of any risk factors and regulatory constraints likely to affect investor decision-making.

Greenhouse Gas emissions disclosure

25) The "GHG Reporting Scheme" was introduced by Environment Canada in 2004 under section 46 of the Canadian Environmental Protection Act 1999 (CEPA 1999), with the first reports delivered in June 2005. The requirements of the GHG Reporting Scheme have been updated periodically in the Canada Gazette and some amendments have been made by virtue of the Regulatory Framework for Air Emissions/Turning the Corner Plan released in Canada in April 2007. The threshold for reporting was lowered from 100 to 50 kilotonnes of GHG in 2010.

26) Environment Canada, a federal agency responsible for environmental protection, produces Technical Guidance on Reporting Greenhouse Gas Emissions and Greenhouse Gas Emissions Quantification Guidance to assist reporting entities. Provisions on GHG measurement have also been introduced at State level in Canada, including in: Alberta, British Columbia, Ontario (O. Reg. 452/09), and Quebec. Environment Canada and the British Columbia Ministry of Environment have introduced a "One Window" electronic GHG reporting system, which will facilitate reporting under various requirements including Environment Canada's GHG Emissions Reporting Program, the Alberta Environment for

⁷ Deloitte (2010). "Environmental Reporting Guidance: CSA Staff Notice 51-333 – What does it mean, why does it matter and where do you go from here?" www.deloitte.com

Specified Gas Reporting Regulation and the British Columbia Environment for the Reporting Regulation. The One Window system is designed to reduce reporting burdens for industry.

Corporate response

27) The Ontario Securities Commission staff notice 51-716 (2008)⁸ reviewed environmental disclosures made by 35 companies for which it is the principal regulator, and generally concluded that compliance with reporting requirements was inadequate, with many companies including boilerplate wording with minimal or no analysis/discussion. During the OSC 2009 corporate sustainability reporting consultation, investors expressed concerns that material information regarding environmental matters was not being reported in securities regulatory filings, but was found in voluntary reports and that disclosures were not necessarily complete, reliable, timely or comparable.

D) China

Disclosure Overview

28) Various legislative and other measures support disclosure of climate change related information in China. The China Securities Regulatory Commission (CSRC) published Administrative Measures for the Disclosure of Information by Listed Companies (January 2007) and requirements for an environmental assessment to be included with new public securities listings.

29) China's State Environmental Protection Administration released Measures on Open Environmental Information (for Trial Implementation) from May 2008. Under Article 19, enterprises are encouraged by the State to disclose voluntarily various types of information including their total annual resource consumption, any investment in environmental protection and technology, the type, volume and content of pollutants discharged by them, plans for environmental pollution accidents and so on.

30) In September 2010, the Ministry of Environmental Protection issued a consultation document on a Guide to Environmental Information Disclosure of Listed Companies. The new proposal requires that listed companies should publish annual environmental reports. The Ministry of Environmental Protection and the CSRC launched the Green Securities Policy in 2008.

31) According to a China Boardroom Update by KPMG in April 2009, various CSR guidelines have been issued by different government bodies, including:

- (a) *China Assets Supervision and Administration Commission's* CSR guidelines for state-owned enterprises in Spring 2008.
- (b) *Ministry of Commerce* guidelines on CSR compliance by Foreign Invested Enterprises.
- (c) *Shenzhen Stock Exchange* guidance on CSR for listed companies in 2006.
- (d) *Shanghai Stock Exchange* "Notice on Strengthening Listed Companies' Assumption of Social responsibility" and "Guidelines on Environmental Information Disclosure by listed companies" both issued in 2008.

32) Banking and financial institutions have also issued guidance to promote sustainable development, including:

- (a) China's National Pension Fund, which includes responsible investment as a core principle.

⁸ OSC (2008). "OSC Staff Notice 51-716 Environmental Reporting".

- (b) China's Banking Association, which released CSR guidelines for financial institutions in January 2009.

Greenhouse Gas emissions disclosure

- 33) With various partners, the World Resources Institute and World Business Council for Sustainable Development promote the China GHG Protocol focusing on three areas:
- (a) Developing GHG Protocol standards and tools for China, including sector specific and cross sector standards and tools;
 - (b) Building GHG quantification, accounting and reporting capacity in China;
 - (c) Assisting development of GHG management programs in China.

Corporate response

34) The Carbon Disclosure Project's 2010 China 100 Report states that, among the 100 largest Chinese companies (based on market capitalization), 71 release CSR reports, among which 29 per cent include explicit disclosures on climate change. Sixty per cent of companies provide quantitative information related to GHG emissions, ranging from energy consumption to GHG emissions reduction and carbon trading. However, only a few disclosed total CO₂ emissions and none of those reports included information about the emissions accounting methodology used or whether the emissions data underwent third party verification.

E) Denmark

Disclosure Overview

35) Denmark was the first country to introduce legislation on mandatory environmental accounting. From July 1995 the Danish Environmental Protection Act required about 1,000 Danish companies to produce so-called "Green Accounts" detailing raw material usage and waste production. The law has been updated and strengthened since.

36) In 2009, the Danish Commerce and Companies Agency published "Reporting on corporate social responsibility – an introduction for supervisory and executive boards". This sets out requirements under amendments to the Danish Financial Statements Act for about 1,100 of the largest Danish businesses to report their work on corporate social responsibility in their annual reports. Article 99a of the Danish Financial Statements Act, which adopted Act no 1403 of 27 December 2008 requires companies to report on environmental and intellectual capital and on CSR policies in management's review with effect from 1 January 2009. The Act defines corporate social responsibility as the way that businesses "voluntarily include considerations for human rights, societal, environmental and climate conditions as well as combating corruption in their business strategies and corporate activities". It is not compulsory for businesses to engage in CSR activities, but it is mandatory for companies to disclose whether they have a CSR policy.⁹ No particular standard is endorsed for compliance with requirements under the Financial Statements Act. However, businesses that have endorsed the UN Global Compact and publish a Communication on Progress are exempted from the requirement to report in their annual report.

Greenhouse Gas emissions disclosure

- 37) The EU Emissions Trading Scheme applies to Danish companies.

⁹ <http://www.csrgov.dk/>

Corporate response

38) The Danish Government¹⁰ reports that seven out of 10 businesses work on corporate social responsibility and regard it as an important element in their business, but that only 26 per cent of businesses communicate their work on CSR. A survey of businesses' implementation of the requirement to report on CSR in 2009 annual reports was published by the Danish Commerce and Companies Agency, The Institute of State Authorized Public Accountants in Denmark and Copenhagen Business School. The report entitled "Corporate Social Responsibility and Reporting in Denmark" found that 97 per cent of companies comply with the requirement to varying degrees and only 9 per cent state that they do not work on CSR.

F) European Union

Disclosure Overview

39) The Modernization of Accounting Directive 2003/51/EC (amending the EU 4th & 7th Company Law Directives) ("EUAMD") requires certain companies to include a balanced and comprehensive analysis of the development and performance of their business in the Director's Report including both financial and, where appropriate, non-financial key performance indicators (KPIs) relevant to the business and information on environmental matters.

40) A 2008 report by the Federation of European Accounting Experts¹¹ indicates that twenty-one states have implemented the EUAMD requirements on environmental reporting into national law and/or guidance. The report highlights a variety of rules and guidance that have been introduced by member states to support EUAMD requirements including:

- (a) Guidance and KPIs for compliance with the Directive (eg: Austria and the Netherlands)
- (b) Best practice examples (eg: Germany)
- (c) Assurance standards/guidance (eg: Germany, Italy, the Netherlands)
- (d) Legislation (eg: France, Sweden)

41) The results of the EU's public consultation on disclosure of non-financial information by companies were published in April 2011. The consultation broadly concluded that current legal regimes differ significantly giving rise to lack of balance and cohesion by reporting companies. Support for integrated reporting (see Chapter II) was evident from the consultation and suggested as a means of improving disclosure without imposing unreasonable administrative burdens on companies.

42) Various EU Directives directly or indirectly impact action and disclosure on climate change, including:

- (a) Directive 2004/53/EC on environmental liability, which has introduced the "polluter pays" concept for damage caused to water and land as well as to protected species and their habitat;
- (b) The Energy Services Directive;
- (c) The Transparency Directive;
- (d) The Industrial Emissions Directive, which entered into force in January 2011 and consolidates seven existing Directives related to industrial

¹⁰ "Reporting on corporate social responsibility – an introduction for supervisory and executive boards"

¹¹ Sustainability information in annual reports – FEE, December 2008

installations and requires certain facilities within the industrial and energy sectors to comply with stricter emissions limits by 2016.

Greenhouse Gas emissions disclosure

43) The EU Emissions Trading System, Directive 2003/87/EC, came into force in January 2005. Amendments to the directive were agreed in April 2009 (2009/29/EC), which will come into effect after 2012.¹² The 2003 Directive is supplemented by Directive 2007/589/EC which establishes rules for the monitoring and reporting of GHG emissions under the EU ETS as provided for by Article 14 of the 2003 Directive.

Corporate response

44) FEE's 2008 report surveyed 76 EU companies identified as being engaged in good disclosure practices. It concluded that environment was one of the most prevalent reporting subjects, but that there were large differences in the provision of non-financial information possibly attributable to differences in business culture, other legislation and local awareness of sustainability issues.

G) France

Disclosure Overview

45) France's Grenelle II (Law No. 2010-788 of 12 July 2010) has been described as a "legislative marathon", implementing new ecological governance processes and laying the foundations for more sustainable manufacturing and consumption. Article 116 of the New Economic Regulations (NRE Regulations - Law No 2001-420) contains the obligation for listed companies to include in their annual reports a section on social and environmental consequences of their activities. Article 83 of the Grenelle II law extends this by providing for the scope of the French Commercial Code (article L.225-102-1) to be extended so that non-listed companies also have to include social and environmental data in their annual reports. Companies affected are those that employ more than 500 employees and whose balance sheet exceeds certain financial limits.

46) Article 85 of the Grenelle II law requires companies to provide customers with some specific information on the carbon footprint of certain products, packaging and transportation services. Article 85 refers to the GHG emissions pertaining to the whole product life cycle of consumer goods. The carbon cost and other environmental impacts of consumer goods must be displayed from 1 July 2011.

47) Grenelle II also requires companies to have social and environmental information verified by a third party in cases where it must be supplied to shareholders. In addition, fund managers will be required to show in documents prepared for subscribers how environmental, social and governance criteria have been taken into account.

Greenhouse Gas emissions disclosure

48) Companies within scope of the Grenelle 2 rules will be obliged to establish a greenhouse gas balance sheet before 31 December 2012. Ademe is the French environment and energy management agency. Ademe's *Bilan Carbone* is a GHG emissions assessment tool widely used in France.

¹² European Parliament (2009). "Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community". <http://ec.europa.eu/>

Corporate response

49) A 2004 report by the Study Center for Corporate Social Responsibility (ORSE), Enterprise for the Environment (EpE) and Orée on the application of NRE concluded that, despite certain imperfections, the NRE law has acted as an impulse for non-financial reporting.¹³

H) India**Disclosure Overview**

50) The Ministry of Corporate Affairs issued the Corporate Social Responsibility Voluntary Guidelines 2009. The core elements include respect for environment, and provide that “companies should take measures to check and prevent pollution; recycle, manage and reduce waste, should manage natural resources in a sustainable manner and ensure optimal use of resources like land and water, should proactively respond to the challenges of climate change by adopting cleaner production methods, promoting efficient use of energy and environment friendly technologies....” The implementation guidance states that companies “should disseminate information on CSR policy, activities and progress in a structured manner to all their stakeholders and the public at large through their website, annual reports and other communication media.”

Greenhouse Gas emissions disclosure

51) In 2008, the India GHG Inventory Program was launched to establish a national model of emissions accounting. The Program was established by the World Resources Institute (WRI) in partnership with the Confederation of Indian Industry and the United States Environmental Protection Agency. The Program is based on the GHG Protocol Initiative developed by the WRI and the WBCSD.

52) In June 2010, the Government of India’s Ministry of Environment and Forests published “India: Taking on Climate Change Post-Copenhagen Domestic Actions”. The measures announced therein include a carbon tax on coal to fund clean energy. These tax provisions may necessitate some GHG measurement and reporting rules.

Corporate response

53) Over a quarter of the top 200 Indian companies by market capitalization responded to CDP’s 2010 information request. The report concludes that climate change has become an important topic for the Indian corporate sector, with the majority of respondents having put in place or assigned senior level staff to develop their climate change strategy. Sixty-eight per cent advocate policy engagement with the government, regulatory bodies and policy makers responsible for responses to climate change.

54) For more general information, a 2008 report by the Confederation of Indian Industry Centre of Excellence for Sustainable Development and the World Wildlife Fund entitled Indian Companies with Solutions that the World Needs – Sustainability as a driver for innovation and profit includes five in-depth case studies reflecting the way in which Indian companies are responding to economic, social, environmental and governance issues.

¹³ Entreprises pour L’Environment (EPE), Oree and Observatoire sur la Responsibilite Societale des Entreprises (ORSE) (2004) “Assignment report submitted to the government: Critical review of how companies are applying French legislation on social and environmental reporting”.
http://www.orse.org/site2/maj/phototheque/photos/docs_an/critical_review....pdf

I) Japan

Disclosure Overview

55) The Government has not issued guidance on the disclosure of climate-change related information (e.g. emissions) in the annual filings of companies.¹⁴ The Japanese Institute of Certified Public Accountants (JICPA) has published a “recommendation on climate disclosure in annual filings” which includes objectives of disclosure, qualitative characteristics of information, contents to be disclosed and boundary and presentation. JICPA has also issued Q&As on the disclosure of climate change-related information as guidance to supplement the recommendation.

Greenhouse Gas emissions disclosure

56) Mandatory GHG emission reporting rules are in place under the Act on Promotion of Global Warming Countermeasures (applicable from April 2006) and the Act on Rational Use of Energy/Energy Saving Law (from 2009). Accompanying guidance is provided in the “Calculation and Reporting Manual”. A manual for calculating and reporting Greenhouse Gas emissions was released by the Japanese Ministry of Environment in November 2006 and the same ministry issued Environmental Reporting Guidelines in 2007.

57) The Japanese Voluntary Emission Trading Scheme (JVETS) commenced in 2005 as a voluntary carbon trading scheme designed to build know how and experience of GHG emissions measurement and trading. With effect from 2009, JVETS is to be incorporated into the “Experimental Emission Trading Scheme” for companies without a sector-specific “Voluntary Action Plan” (Domestic Integrated Market). Various IT systems have been introduced to support the operation of these trading schemes including a registry, emissions management and trade matching system. The monitoring and reporting guidelines are based on the EU Emissions Trading Scheme and ISO 14064-1.

58) The Tokyo Metropolitan Government Emission Trading Scheme is the first mandatory cap and trade emissions trading scheme in Japan, the first phase running from 2010 – 2014.

Corporate response

59) 218 Japanese companies from the top 500 companies in terms of market capitalization responded to the CDP 2010 information request, including 80 per cent of the top 50 companies. The CDP 2010 Japan report identifies particularly high recognition amongst Japanese companies of risks and opportunities associated with climate change both domestically and overseas.

60) JICPA’s May 2007 Research Report 33 publishes findings from their review of disclosures of 26 companies in the electric power, steel and automobile industries.¹⁵ The report concludes that there were relatively few disclosures in securities filings compared with CSR and environmental reports, which have become common among listed companies. Any disclosures were diverse in quality and quantity and appeared mainly in the research and development section of the filing but in most cases information was limited to a few lines acknowledging global warming as a risk or issue to be addressed.

¹⁴ The Financial Instruments and Exchange Act requires listed companies and the equivalent to issue annual filings. The Cabinet Office Ordinance concerning Disclosure of Corporate Information prescribes rules on information to be included in the securities report, but there is no explicit requirement for environmental information. The Ordinance requires companies to disclose relevant sections entitled “issues to be addressed”; “business risk”, “analysis of financial condition and performance” and “research and development.”

¹⁵ JICPA (2007) “Disclosure in Japan of Investor-Oriented Information Concerning Climate-Change Risk: Current Circumstances and Issues”.

J) New Zealand

Disclosure Overview

61) The New Zealand Emissions Trading Scheme was legislated through the Climate Change Response Act 2002 with effect from September 2008. In December 2009, the Climate Change Response (Moderated Emission Trading) Amendment Act 2009 was passed amending and expanding the emissions trading scheme in New Zealand.

K) Singapore

Disclosure Overview

62) On 28 August 2010, the Singapore Exchange (SGX) issued a “Policy Statement on Sustainability Reporting” and proposed guide for listed companies to use in sustainability reporting. The policy statement says that environmental, social and governance considerations are important for the long-term performance of companies. No single standard is recommended for reporting but the Global Reporting Initiative’s Sustainability Reporting Guidelines and the UN Global Compact principles are listed as recognised standards for reporting purposes. As at May 2011, sustainability reporting is voluntary, however, SGX has sought feedback on the adoption of mandatory sustainability reporting.

L) South Africa

Disclosure Overview

63) One of the stated aims of the new Companies Act 71 of 2008 is to require directors to manage companies on behalf of shareholders but in such a manner that will ensure the interests of all stakeholders are considered. The disclosure implications of the new Act are not known at the time of writing but are representative of the trend for companies to take account of the impacts of their activities on all stakeholders.

64) The updated King Report (King III) was released on 1 September 2009. As of June 2010, all listed companies on the Johannesburg Stock Exchange are required to produce an annual report to integrate the management of financial and non-financial matters including integrated sustainability reporting. Third party assurance must be obtained for disclosures. Practice Notes have been issued to provide guidance into the practical application of King III.

65) The draft Code for responsible Investing by Institutional Investors in South Africa was issued in September 2010. The code aims to encourage institutional investors and their service providers to put in place measures aimed at ensuring responsible investing, including measures to promote improved climate change related disclosure. The public comment period ended on 31 October 2010 and a summary of the comments was published on 28 March 2011.

M) Sweden

Disclosure Overview

66) With effect from 2009, Swedish state owned companies are required by law to prepare sustainability reports according to GRI guidelines. The Swedish Ministry of Enterprise, Energy and Communications publishes guidelines for external reporting by state owned companies which contain reference to sustainability issues.

N) United Kingdom

Disclosure Overview

67) The Companies Act 2006, section 417 incorporates into United Kingdom law the provisions on environmental reporting according to the EU Accounts Modernization Directive. Listed companies (except those qualifying as small companies) are required to report in their Business Review (equivalent to the management commentary) information on environmental matters and their impacts to the extent necessary for an understanding of the business. Large quoted companies also have to report on environmental risks, policies and KPIs.

68) In 2006, DEFRA issued “Reporting Guidelines for United Kingdom Businesses on Environmental Key Performance Indicators” (both general and sector specific) for compliance with the Business Review requirements of the Companies Act.

69) Two consultations by the Department for Business, Innovation and Skills (BIS) might affect future climate change disclosure expectations in the United Kingdom. The first was a public consultation on narrative reporting which closed in October 2010. Following the publication of the results of the consultation, BIS said that it considers that there is a need for more thorough examination of narrative reporting with a view to streamlining the framework and achieving a significant change in disclosure practice. Secondly BIS conducted a consultation on corporate governance and how to encourage a long-term focus for corporate Britain, the results of which were published in March 2011.

70) The Financial Reporting Council published the United Kingdom Stewardship Code in July 2010 to complement the United Kingdom Corporate Governance Code¹⁶ for listed companies. Principle 4 of the seven principle code states that institutional investors should set out the circumstances in which they will actively intervene so as to protect and enhance shareholder value. “Instances when institutional investors may want to intervene include when they have concerns about the company’s strategy and performance, its governance or its approach to the risks arising from social and environmental matters.”

71) The Accounting Standards Board’s (ASB) statement of best practice “Reporting Statement: Operating and Financial Review (RS1)” recommends that companies identify their principal environmental risks in qualitative terms and the potential impact of those risks on their results.

72) An Energy Bill was introduced to the House of Commons in March 2011. The Bill is designed to support more effective measures for the provision of energy to homes and businesses and to improve the United Kingdom’s framework for encouraging low carbon energy supplies and fair competition in the energy markets.

73) The CRC Energy Efficiency Scheme is described on DECC’s website as “a mandatory scheme aimed at improving energy efficiency and cutting emissions in large public and private sector organisations. These organisations are responsible for around 10 per cent of the United Kingdom’s emissions. The scheme features an annual performance league table that ranks participants on energy efficiency performance. Together with the reputational considerations, the scheme encourages organisations to develop energy management strategies that promote a better understanding of energy usage...”. The scheme applies to emissions that are not already within scope of United Kingdom Climate Change Agreements and the EU Emissions Trading Scheme.

¹⁶ The Governance Code replaces the Combined Code for premium listed companies for financial years starting on or after 29 June 2010.

Greenhouse Gas emissions disclosure

74) In September 2009, The Department for Environment, Food and Rural Affairs (DEFRA), in partnership with the Department for Energy and Climate Change (DECC) published “Guidance on how to measure and report your greenhouse gas emissions”. This guidance was issued in compliance with section 83 of the Climate Change Act 2008 which required the Secretary of State to “...publish guidance on the measurement or calculation of greenhouse gas emissions to assist the reporting by persons of such emissions from activities for which they are responsible...”. The guidance is based on the Greenhouse Gas Protocol.

75) The Climate Change Act 2008 (section 85) requires the United Kingdom Government, not later than 6 April 2012, either to make regulations under section 416(4) of the Companies Act 2006, requiring directors’ reports to contain certain specific information about GHG emissions or to lay a report before Parliament explaining why no such regulations have been made. DEFRA commissioned and published research on the contribution that reporting of greenhouse gas emissions makes to the United Kingdom meeting its climate change evidence. The research is designed to help inform the United Kingdom Government’s decision on whether to introduce mandatory GHG emissions reporting in the United Kingdom and how to respond to the requirements of section 85 of the Climate Change Act 2008.

76) On 11 May 2011 the United Kingdom Government launched a public consultation on how to promote widespread and consistent reporting of greenhouse gas (GHG) emissions by companies in the United Kingdom. The consultation elicits views on whether to introduce regulations requiring companies to report on their GHG emissions, as outlined in section 85 of the Climate Change Act, or whether widespread and consistent corporate reporting could be better achieved through other, non-regulatory means. The consultation paper and impact assessment may be found on DEFRA’s website.¹⁷

Corporate response

77) A review of 2006/2007 annual reports by the Environment Agency¹⁸ found that 98 per cent of companies reviewed addressed environmental issues in some way but that information was often of a broad narrative nature rather than incorporating KPIs and only 15 per cent of companies reported quantified data in accordance with DEFRA guidelines. A review by the Accounting Standards Board¹⁹ of compliance with the requirements of the Companies Act 2006 found that 66 per cent of disclosures on principal risks fell short of expectations, as did 56 per cent of disclosures on trends and factors and 34 per cent of disclosures on corporate social responsibility.

O) United States

Disclosure Overview

78) The Securities and Exchange Commission (SEC) Regulation S-K Items 101 (Description of Business), 103 (Legal Proceedings) and 303 (MD&A) require disclosures on the material effect of compliance with environmental laws and pending legal proceedings. Large investor groups and pension funds petitioned the SEC to issue an interpretive release clarifying that material climate-related information must be included in corporate disclosures under existing law. In response, in early 2010, the SEC issued guidance²⁰ to public companies regarding the Commission’s existing disclosure requirements as they apply to climate change matters. The guidance went into effect from 8 February 2010.

¹⁷ www.defra.gov.uk/consult/2011/05/11/ghg-emissions/

¹⁸ Environment Agency (2007). “Environmental disclosure: the second major review of environmental reporting in the Annual Report & Accounts of the FTSE All-Share”

¹⁹ ASB (2009). “A Review of Narrative Reporting by UK listed companies in 2008/2009”

²⁰ see www.sec.gov/rules/interp/2010/33-9106.pdf

Greenhouse Gas emissions disclosure

79) Following a public comment period from April to June 2009, the final Greenhouse Gas Mandatory Reporting Rule was signed by the United States government on 22 September 2009 and published in the federal register. Under the rule, suppliers of fossil fuels or industrial greenhouse gases, manufacturers of vehicles and engines, and facilities that emit 25,000 metric tons or more per year of GHG emissions are required to submit annual reports of their GHG emissions to the EPA. The Mandatory Reporting Rule was made under the Clean Air Act section 307(d) and amends the Code of Federal Regulations (esp 40 CFR Part 98). The purpose of the final GHG Mandatory Reporting rule is “to Shape Future Climate Change Policy”; and

- (a) Better understand relative emissions of specific industries, and of individual facilities within those industries.
- (b) Better understand factors that influence GHG emission rates and actions facilities could take to reduce emissions.
- (c) Provisions on GHG emissions reporting have also been introduced in many United States states.²¹

Corporate response

80) A February 2011 report by CERES reviewed SEC filings for the 2009 financial year and found “an array of climate change reporting examples....too many companies fail to address the issue at all”.²² The CERES report refers to an analysis by ISS Corporate Services of the 2009 SEC filings by the 100 largest United States companies. The research found that 51 made reference to climate change in their 2009 10-K filings, 22 discussed climate change opportunities, and 24 addressed physical risks to their assets from climate change.

P) Cross cutting issues: shared and different characteristics of GHG measurement and reporting rules

81) There are a number of issues that cut across climate change related disclosure provisions in different jurisdictions including how to determine materiality and what organizational boundaries to use for disclosure. One of the main cross cutting issues involves the measurement, monitoring and reporting of GHG emissions and these issues are explored here. Quantitative measures of greenhouse gas emissions provide direct information for the assessment of an organization’s climate change related impacts. However, differences between schemes in different countries can make it difficult to compare results. The main types of differences between schemes include:

1) Scope, boundaries and coverage

82) The thresholds and other criteria used for determining whether reporting entities are within the scope of the disclosure scheme range from 3,000 metric tons of carbon dioxide equivalent annual emissions in Japan, and 25,000 metric tons in the USA, to 50,000 metric tons of carbon dioxide equivalent in Canada. The EU ETS sets the threshold for participation by reference to the mega watts of heat excess produced by installations. The Australian NGER scheme thresholds are phased in over three years and are based on GHG emissions in CO₂-e or energy production or consumption levels, depending also on whether the reporting entity is a controlling corporation in a group of companies.

²¹ For a comprehensive list see www.pewclimate.org/what_s_being_done/in_the_states/state_legislation.cfm

²² Ceres (2011). “Disclosing Climate Risks & Opportunities in SEC Filings”. www.ceres.org

83) Generally, once an organization is within the scope of the relevant provisions, those provisions apply to GHG emissions from sources within the jurisdiction concerned, although the United Kingdom guidelines issued by the Department for Environment, Food and Rural Affairs encourage voluntary disclosure of GHG emissions from subsidiaries outside the United Kingdom.

2) Measurement methods

84) Most schemes allow for a variety of approaches to the preparation of GHG emissions results, including calculation methods based on emission factors, direct measurement methods (such as continuous monitoring equipment) or a combination of calculation and direct measurement methods. Some schemes require particular approaches to be taken by certain industries or facilities. Generally schemes:

- (a) Require or allow either a calculation based (by applying a fuel, country, site specific or default emission factor and/or other co-efficient to activity data) or a direct measurement (using continuous emissions technology) approach to the calculation of GHG emissions results.
- (b) Specify the approach to be used by reference to reporting entity or GHG source type.
- (c) Where a calculation based approach is required or encouraged, the regulator or standard setter might also specify rules on the collection of activity data.
- (d) Where direct measurement is required or encouraged, the regulator or standard setter might also specify rules on the frequency and conditions under which machinery must be re-calibrated.
- (e) Generally, GHG emissions results are to be expressed in metric tonnes of CO₂-e or a unit that is convertible to metric tones of CO₂-e.

3) Emission factors

85) An emission factor is a conversion factor used to relate the quantity of a pollutant released to the atmosphere with an activity associated with the release of that pollutant. Using emission factors, particularly default factors, is generally regarded as cheaper and easier than measuring emissions through direct monitoring. However, various studies, including the United States EPA's consultation documents on the GHG Mandatory Reporting Rule observe that "default factors mask a high degree of source-specific variability and so can be substantially inaccurate for individual sources and can produce estimates tainted by considerable uncertainty...."²³ Similarly, ERM's study for the European Commission identified inconsistency of emission factors as the main criticism of the GHG Protocol. Variation in emission factor values and underlying assumptions is therefore often cited as one of the reasons for lack of consistency in the preparation of GHG emissions results.

4) Quality assurance and verification of results

86) Like greenhouse gas reporting schemes themselves, assurance and verification practices are under development. There is variation between greenhouse gas reporting schemes in relation to the quality assurance, verification and control provisions they specify. Some of the mandatory schemes, for example the United States Mandatory Reporting Rule, rely on self-certification of data, others rely on selected audits to check quality but few, apart from the EU ETS require third party verification of data.

87) Various voluntary standards exist for conducting verification and assurance activities on greenhouse gas results including:

²³ United States EPA "General Monitoring Approach, the Need for Detailed Reporting and other General Rationale Comments" September 2009

- (a) AccountAbility's AA 1000 assurance standard;
- (b) International Standard on Assurance Engagements 3000;
- (c) The International Organization for Standardization's ISO 14064-3:2006.

88) On 11 January 2011 the International Auditing and Assurance Standards Board issued for consultation a proposed new International Standard on Assurance Engagements on Greenhouse Gas Statements (ISAE 3410).

5) Disclosure procedures

89) Increasingly, national schemes require annual disclosures to be made through online or electronic reporting mechanisms. The electronic reporting tool used in the United States is known as e-GGRT (electronic GHG reporting tool) and the Australian equivalent is known as OSCAR (the online system for comprehensive activity reporting). The European Commission publishes electronic templates for the preparation of monitoring reports under the EU ETS and is in the process of developing an XML scheme for harmonized electronic reporting within the EU. Reporting years and deadlines vary between the schemes.

90) There is a broadly common infrastructure for preparing greenhouse gas emissions results. For example, where calculation methods are required or allowed, the applicable formulae and coefficients are generally consistent. Greater specificity and prescription, together with accepted verification/assurance practices would go some way towards minimizing such differences, as would greater linking of existing schemes.

91) Some regulators are working towards linking and harmonizing arrangements at federal or regional levels. For example, the "One Window" program in Canada seeks to provide a common reporting platform for Canadian state and federal greenhouse gas emissions reporting schemes. Similarly, the United States EPA is conducting an exercise to streamline state schemes, for example the Californian Air Resources Board legislation, with the Federal Mandatory Reporting Rule. Furthermore, the Australian state and territory governments have agreed to a standard national approach to greenhouse as reporting known as the National Greenhouse Gas and Energy Reporting Streamlining Protocol.

II. Conclusions

A) National and regional developments

92) The information in this report has provided a non-exhaustive overview of the profusion of activity on climate change-related and sustainability disclosure around the world. The findings of this review regarding the scope and scale of activity, further corroborate previous research such as ERM's 2010 review for the EC Directorate-General Environment, which identified a total of 30 "major" schemes just focused on GHG emissions reporting and the GRI's 2010 "*Carrots and Sticks*" report, which revealed:

- (a) In 30 countries, a total of 142 country provisions with some form of sustainability related reporting requirement or guidance;
- (b) About two thirds of those provisions can be classified as mandatory;
- (c) A total of 16 provisions provide for some form of reporting requirement at the global and regional level; and
- (d) 14 assurance standards are in place to support reporting under these standards and laws.

93) This review shows that provisions relevant to climate change-related disclosure can take a variety of forms and serve a variety of objectives, including provisions on:

- (a) Disclosure of risk
- (b) Greenhouse gas emissions measurement
- (c) Investor duties in relation to ESG considerations
- (d) Governance of potential climate impacts
- (e) Taxes: Although not covered in detail in the text above, it is understood²⁴ that 'carbon taxes' are in place in a number of countries including: Costa Rica, Denmark, Finland, India, Ireland the Netherlands, Norway, Sweden and Switzerland. In the United Kingdom, the Climate Change Levy is a tax on business energy use, which applies to 54 sectors. South Africa's National Treasury has proposed a carbon tax. The public consultation ended on 28 February 2011. On the basis that effective taxation can be served by robust measurement of GHG emissions, the associated rules are relevant in assessing the overall landscape of climate change-related disclosure.
- (f) GHG emissions trading schemes: A 2010 report by the International Energy Agency notes that emissions trading systems are already operating or planned around the world with mandatory schemes in the European Union, Norway, Switzerland, New Zealand, Alberta, New South Wales, United States Regional Greenhouse Gas Initiative, Tokyo and the United Kingdom (Carbon Reduction Commitment Scheme). The Western Climate Initiative [WCI] links trading arrangements in United States states and Canadian provinces. Voluntary arrangements are in place or have been proposed in Australia, Korea, Japan, Brazil and China.

94) The variety of disclosure provisions around the world reflects the ongoing debate about the relative effectiveness of voluntary versus mandatory approaches, principles versus

²⁴ source www.sbs.com.au

rules, hard law versus soft law and flexible, decentralized regimes versus multi-lateral binding arrangements. Some of the provisions rely on “apply or explain” or “comply or explain” approaches. However, as noted by an EU Commission paper on transparency and disclosure, “the debate is no longer centered on the issues of mandatory requirements versus voluntary initiatives [and] the key focus has moved on [...] to how the variety of approaches that have been adopted can be harmonized....”²⁵

B) Towards a harmonized approach to climate-change related reporting

95) Regulatory and voluntary developments at state, national and global level are already requiring or providing for climate change related disclosures to be made. Some of the infrastructure is already in place or is developing fast to ensure that essential information reaches policy makers and markets. The availability of high quality standards, the common features they share, the influence of established financial reporting practices and the influence of investors all provide a solid foundation for climate change-related disclosure to develop as a discipline and achieve greater standardization and harmony over time.

96) Comparisons are sometimes made between the current state of national/regional climate disclosure requirements and the network of local Generally Accepted Accounting Principles (GAAPs) that applied for the purposes of preparing financial statements prior to the IASB’s project to converge national approaches and develop IFRS. Prior to the convergence project, national GAAPs were designed to serve similar objectives and contained similar information content requirements in the same way that current climate reporting approaches do. However, inconsistencies between national approaches made it difficult for investors and others to interpret and use financial information. By supporting the development of international standards for financial reporting, the IFRS convergence project was designed to make investment and financial reporting more efficient. Links between economic and climate change-related stability have led to calls²⁶ for environmental regulators and international accounting standard setters to develop universally applicable climate change reporting standards following the financial reporting model with its established standard-setting process and with which business and markets are already familiar.

97) Promoting consistency between national approaches on climate change related reporting will require increased cooperation at an international level. In this regard, ISAR should continue to serve as a forum for consensus building.

²⁵ European Commission Multistakeholder Forum (2010). “Notes from Transparency, disclosure and reporting parallel session”.

²⁶ For example, ACCA’s position paper on the UN Climate Change Conference in Copenhagen in 2009