

# REPRESENTATION TO THE CONFERENCE OF PARTIES ON CLIMATE CHANGE (COP15)

COPENHAGEN 7–18 DECEMBER 2009



# WE COMMEND

to political leaders the goals stated in the *Copenhagen Call* to COP15 and the recommendations on *Measuring and communicating progress* in the *Summary report for policymakers* following the World Business Summit on Climate Change. The business and investor response required to support delivery of reduction targets will be enabled by an appropriate climate change disclosure framework.

# WE CALL

for a set of universally accepted standards for the disclosure to shareholders of climate change-related information<sup>1</sup> connected to financial performance and to mainstream financial reporting.<sup>2</sup> We propose that policy makers endorse collaboration between all relevant stakeholders to form an independent standard setter charged with achieving these goals.

# WE COMMEND

to political leaders the goals stated in the *Copenhagen Call* to COP15 and the recommendations on *Measuring and communicating progress* in the *Summary report for policymakers* following the **World Business Summit on Climate Change (WBSCC)**: “achieving and tracking greenhouse gas emissions reductions is vital to measuring convergence towards the objectives of an effective climate treaty... a unified, coherent and reliable measurement, reporting and verification discipline... is essential to this goal.”

# WE BELIEVE

that an 80% reduction in greenhouse gas (GHG) emissions by 2050<sup>3</sup> will only be achieved by aligning the actions of governments and business so that they are mutually reinforcing. In order to facilitate that alignment and enhance understanding of business and shareholder actions on climate change, we urge political leaders to encourage disclosure of climate change-related information connected to financial performance and mainstream financial reporting according to a set of universally accepted standards that:

- to the extent that they are available, adopt existing standards on aspects of climate change related information, including the Greenhouse Gas Corporate Standard (the GHG Protocol)<sup>4</sup> which should be used for the purposes of making disclosures relating to GHG emissions (other than those required by regulation); and
- adopt principles from financial reporting to elicit disclosures that are useful to investors in their decision-making and that reflect climate change as one of the crucial factors likely to affect the development, performance and condition of a company's business.

# WE INVITE

A clear articulation and definition of the information that businesses need to operate with confidence and that consumers and investors need to make informed decisions is an essential part of the enabling framework required to help achieve actions agreed through United Nations Framework Convention on Climate Change (UNFCCC) discussions. That understanding and articulation in turn depends upon:

- a set of universally accepted standards for compilation and disclosure of climate change-related information connected to financial performance and mainstream financial reports;
- a measurement system that moves beyond focusing on the production of emissions within political boundaries to one that looks at consumption as a driver of climate change across national boundaries and takes account of carbon embedded in the value chain;
- an assurance standard, such as that under development by the International Auditing and Assurance Standards Board.

In order to make progress towards these outcomes, **we call for a collaborative process of setting standards for connecting financial performance and reporting** that:

- adopts and builds upon standards that already exist for particular aspects of climate change-related disclosure;
- involves all representative stakeholders; and
- has the authority to promulgate the standards through a body convened to co-ordinate the work and interests of those stakeholders.

**participants at COP15 to endorse the establishment of a project between internationally recognized organizations with the relevant expertise to advance the development and promulgation of a set of universally accepted standards on disclosure of climate change related information that is linked to financial performance and mainstream financial reporting.** This project should involve the International Accounting Standards Board and the Climate Disclosure Standards Board. Such a project would also respond to the call made by the World Economic Forum's Low Carbon Economic Prosperity Task Force. It should be developed in the context of the wider need for a more integrated and connected approach to reporting financial and non-financial information to reflect other matters that equally threaten prosperity and achievement of a sustainable global economy, such as depletion of finite natural resources and ecosystems.

Many organizations are already reporting their climate change-related information to the Carbon Disclosure Project (CDP), The Climate Registry (TCR), and through other channels, which is indicative of the attention given to climate change by investors and others. Greater consistency of approach is emerging from reliance on CDP's formulation of the content and format of disclosures and from the widespread adoption of the GHG Protocol as the de-facto standard on GHG emissions quantification and management.

Standard setting work is now needed to consolidate and supplement this progress into a standardized approach to climate change related disclosures connected to financial performance and mainstream financial reports that must also:

- prescribe a common consolidation method for the compilation of information that specifies and builds on the relevant GHG Protocol consolidation approaches, ensures consistency with the financial accounting consolidation approaches, enhances comparability across corporate climate-change related disclosures, and supports the development of meaningful performance metrics for benchmarking;
- provide guidance on how strategies to manage and respond to climate change may be reliably reported given the legitimate uncertainties inherent in the determination of climate change-related information;
- describe how preparers should identify the type of climate change-related information that is most useful to investors in their decision making; and
- set suitable criteria for obtaining assurance of disclosures.

The benefits of a set of universal standards for disclosure of climate change-related information in mainstream financial reports are already well documented and include:

- reduced complexity and increased clarity that enables businesses and investors to integrate climate change considerations into their strategies and long-term planning;
- disclosures that are more consistent, comparable and reliable across sectors and geographies;
- a common language for reporting that is necessary for linking and harmonizing schemes; and
- greater clarity and rigor as is necessary for compliance, assurance and enforcement and that is compatible with the implementation of policies under the UNFCCC discussions.

The draft Reporting Framework released by CDSB for public consultation in May seeks to achieve these objectives. It draws together, references and adopts existing practices and standards to the extent that they support and complement mainstream financial reporting, including the work of CDP, TCR, WRI's GHG Protocol Team, ISO and relevant principles from financial reporting standards developed by the IASB. In addition, reflecting the work of The Prince's Accounting for Sustainability Project, CDSB's draft Reporting Framework links an organization's climate change data to an assessment of strategic direction, risk and financial performance.

# WE BELIEVE

that developing a single reporting standard for climate change-related disclosures, related to financial performance and mainstream financial reports, is only part of a process that should, over time, seek to include the disclosure of all sustainability issues that affect business and decision-making by shareholders. Climate change, whilst probably the single most important issue we face today, cannot be viewed in isolation from, nor eclipse other aspects of disclosure essential to the achievement of a sustainable economy and society.

# WE CALL ON POLICY-MAKERS

to endorse the establishment of an independent, stakeholder-led standard setting body with appropriate accountability to public authorities, tasked with the development of a single set of universal standards for businesses to make climate change-related disclosures, linked to financial performance and mainstream financial reports. We believe that this will promote provision of more trusted, accurate and reliable information to investors and other stakeholders, thus enabling them to make better-informed decisions and drive the scale of behavioral change necessary to achieve a low-carbon economy.

1 "Climate change related disclosures" fall into four main categories:

- climate change strategy and governance;
- risks and opportunities;
- greenhouse (GHG) emissions; and
- performance – mitigation of and adaptation to climate change.

2 "Mainstream financial reporting/reports" means the annual reporting packages in which certain companies are required to deliver their audited financial results under the corporate, compliance or securities laws of the territory or territories in which they operate. Mainstream financial reports are normally publicly available. They provide information to existing and prospective investors and are distinct from material published on a voluntary basis, such as corporate social responsibility reports. Mainstream financial reports include:

- **financial statements**, which are "the collective primary financial statements, along with notes, comprising a summary of significant accounting policies and other explanatory notes" and are prepared in accordance with International Financial Reporting Standards (IFRSs). IFRSs are financial accounting standards and interpretations adopted by the International Accounting Standards Board (IASB) and their predecessor bodies; and
- **"other financial reporting"**, which comprises "information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions". The main component of other financial reporting, which is outside the scope of IFRSs, is management commentary, also described as management discussion and analysis (MD&A), business review or operating and financial review (OFR).

3 This commitment was made at the G8 summit in July 2009 see [www.g8italia2009.it](http://www.g8italia2009.it)

4 The GHG Protocol was developed by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI). See [www.ghgprotocol.org](http://www.ghgprotocol.org). References in this document to the GHG Protocol include Regional and Program Protocols developed based on the GHG Protocol including The Climate Registry's (TCR) General Reporting Protocol and all standards that are based on the GHG Protocol including the International Organization for Standardization's 14064-1: *Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals*.

# SIGNED BY

The Institute of Chartered Accountants in England and Wales

The Prince's Accounting for Sustainability Project

The Climate Disclosure Standards Board

## AS AUTHORS

## AND BY:

American Institute of Certified Public Accountants

Association of Chartered Certified Accountants

Canadian Institute of Chartered Accountants

Chartered Accountants Ireland

Chartered Institute of Management Accountants

Chartered Institute of Public Finance and Accountancy

CPA Australia

Hong Kong Institute of Certified Public Accountants

Institute of Chartered Accountants in Australia

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South African Institute of Chartered Accountants

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**Accounting for Sustainability**

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**Climate Disclosure Standards Board**

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