

28 February 2020

Climate Disclosure Standards Board (CDSB)  
Worldwide Plantation Place South  
60 Great Tower Street  
London EC3R 5AD

*By email only*

Dear Colleagues

## **Consultation on Advancing Nature-related Financial Disclosures and use of the CDSB Framework**

Deloitte Touche Tohmatsu Limited is pleased to respond to the CDSB's Consultation Paper. Our detailed responses to the Consultation Questions are in the Appendix to this letter.

In our response, we emphasise the need for clear, comprehensive and globally consistent reporting on the impacts of climate change on business. We believe that a global approach to standard setting in this area is essential to provide information that the market needs in order to evaluate the resilience of companies faced with the threats of climate change and the planetary limits in relation to natural capital.

We support CDSB's efforts in promoting such global standards. In particular, we encourage CDSB to work with others to push with urgency for consolidation and harmonisation of standards and frameworks, in order to have the definitive global standard on climate reporting: one that builds on the TCFD recommendations, supported by globally consistent metrics. This is essential if we are to make true progress.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884 or Neil Stevenson in London at +44 (0)20 7007 1602.

Yours sincerely



**Veronica Poole**

Deloitte Touche Tohmatsu Limited

## Appendix

*Question 1 – Do you believe that the CDSB Framework is an appropriate framework for making nature-related financial disclosures in the mainstream report (i.e. annual report and accounts)? Why or why not? Please explain.*

Overall, we believe the CDSB Framework is an appropriate framework. It already includes many of the key concepts for integrating nature-related matters into a mainstream report and adopts an approach that is connected to financial reporting. It also includes many principles and reporting requirements that are relevant for reporting on nature-related disclosures. The Framework encompasses a good range of environmental topics that cover many aspects of natural capital. As a general, principles-based Framework, it can be a useful starting point for making nature-related disclosures. The Framework could be adapted where needed to include wider nature-related topics. Additionally, or alternatively, CDSB could address gaps by issuing specific application guidance (as suggested in the overview preamble above), on topics not covered within the Framework – such as on biodiversity.

*Question 2 – What specific changes, if any, need to be made to the seven guiding principles (as shown in the textbox below) in the CDSB Framework to fully cover nature-related financial disclosures?*

The guiding principles are designed to ensure that **environmental information** shall be:

<b>P1</b> Prepared applying the principles of relevance and materiality	<b>P4</b> Consistent and comparable
<b>P2</b> Faithfully represented	<b>P5</b> Clear and understandable
<b>P3</b> Connected with other information	<b>P6</b> Be verifiable
	<b>P7</b> Be forward-looking

Overall, the guiding principles are appropriate and relevant, in our view. Given the focus is the mainstream report, the guiding principles should be consistent with those used in preparing financial information. The current principles were developed with the 'qualitative characteristics of useful financial information' specified in the IASB's Conceptual Framework in mind and as such meet this objective.

It may be necessary to expand the text on the principles to include content on broader considerations applying to natural capital and value creation. CDSB should revisit its articulation of the concept of materiality, to explain how climate-related and natural capital issues should be considered when they can impact the company and its future value creation over longer time horizons.

*Question 3 – What specific changes, if any, need to be made to the twelve reporting requirements (as shown in the textbox below) in the CDSB Framework to fully cover nature-related financial disclosures?*

Reporting Requirements	
REQ-01 Governance	REQ-07 Organisational boundary
REQ-02 Management's environmental policies, strategy and targets	REQ-08 Reporting policies
REQ-03 Risks and opportunities	REQ-09 Reporting period
REQ-04 Sources of environmental impact	REQ-10 Restatements
REQ-05 Performance and comparative analysis	REQ-11 Conformance
REQ-06 Outlook	REQ-12 Assurance

Overall, the reporting requirements are appropriate and relevant, in our view. We note two points for further consideration in the context of nature-related financial disclosures.

- REQ-04, on sources of environmental impact, should be broadened to include reporting on an entity's sources of natural capital and how this relates to its value creation process. We note that a number of nature-related disclosures are already included under this requirement and so it should be possible to extend it further, or to issue guidance as to how to fulfil this requirement in relation to nature-related disclosures. (We also note that REQ-02 already requires an entity to disclose natural capital dependencies in relation to policies, strategy and targets.)

- Climate change and natural capital impacts carry implications for financial statements. Investors and regulators in certain jurisdictions have increasing expectations that disclosures on climate change and related areas are reflected in financial statements, over and above, and consistent with, narrative disclosures (see our response to Q7a). In the light of this CDSB may therefore wish to include further requirements on connectivity with financial reporting in the CDSB Framework. This is consistent with the TCFD recommendations and with emerging practice.

*Question 4 – What other changes are needed to the CDSB Framework, if any, beyond the principles and requirements to fully cover nature-related financial disclosures?*

There will be a need to define the topics that CDSB envisages to be covered by natural capital in the absence of a globally-agreed standard definition. In relation to an over-arching definition of natural capital, we suggest retaining the definition made in the International <IR> Framework. When addressing natural capital as a source of value to the company, we suggest emphasising in the CDSB Framework the need to link to disclosures on the business model and explaining how natural capital contributes to and is affected by the value creation process.

It would also be helpful to consider future developments on management reporting and other areas that may arise following the publication of 'The quality and effectiveness of audit: independent review' by Sir Donald Brydon. While this is a UK publication it contains recommendations that could inform CDSB's thinking, such as in relation to internal controls, or the envisaged resilience and public interest statements. For example, CDSB could address more explicitly the need for robust controls over material climate and nature-related matters.

*Question 5a – What other frameworks and/or standards could be drawn on to support the provision of decision-useful nature-related financial disclosures in the mainstream report (e.g. CDP, SASB, Natural Capital Protocol etc.)?*

As CDSB will be aware, there is a profusion of options for reporting on natural capital related areas – and as suggested elsewhere, this results in confusion and creates the potential for greenwashing. Therefore we suggest that CDSB prioritises collaboration with a few aligned frameworks and standards in order to encourage alignment and consolidation. CDSB could start with organisations that share a similar view of materiality and focus on the providers of financial capital as the first logical step. However broader ecosystem needs must also be considered and CDSB should play a constructive role in contributing to further alignment.

*Question 5b – How can these frameworks and/or standards be used in conjunction with the CDSB Framework?*

CDSB and its Framework could contribute to:

- achieving greater connectivity between traditional financial reporting as addressed by IFRS and non-financial reporting disclosures, for example on the broader value creation process
- evolve its framework to underpin and sets in context natural capital metrics.

We also note the emergence of frameworks and management techniques, beyond disclosures, that aim to value natural capital. We see these as valuable contributions for companies to understand the relative importance of natural capital in their value creation process, and as an aid to decision-making, strategy and risk management, and management accounting. The outputs of these efforts can be used to demonstrate, where appropriate, the impact of decisions that have 'had regard' to the environment and protecting the stock of natural capital.

*Question 6 – What is the outcome to be achieved by having a universally applicable, global framework for making nature-related financial disclosures in the mainstream report?*

Along with many, we see an existential threat arising from climate change, that will affect every company in every sector. There are also critical issues relating to natural capital, arising from climate change but also from human expansion and consumption – such as biodiversity, deforestation and use of water. We need a system change to direct capital to long-term, inclusive, resilient companies that minimise their negative impacts and enhance their contribution to people, planet and prosperity. Therefore the outcome that we should all be seeking to achieve in relation to nature-related financial disclosures is authentic, high-quality disclosures that influence investor decisions and capital allocation towards long-term, sustainable business. This is in keeping with policy objectives as expressed by the world’s commitment to SDGs relating to natural capital and more generally.

*Question 7a – The CDSB Framework’s development has been underpinned by accounting practices and standards. Which existing international accounting standards (e.g. IFRS 7 & 9) could be adapted to better support the provision of decision useful nature-related financial information to investors?*

We observe that IFRS Standards (i.e. IFRSs and IASs) already require the current or future impacts of climate change (and other nature-related and ESG issues) on a company’s financial position to be disclosed where material. We think that applying the current standards effectively will go a long way to meeting the expectations of investors and regulators, and enhance decision-useful information.

We explore climate-related accounting requirements in the Deloitte publication [A Closer Look: Climate Change](#) in more detail. Nick Anderson, IASB board member, also addressed this issue in his article on [IFRS Standards and climate-related disclosures](#). CDSB’s focus must be on emphasising the need for consistency of assumptions used in narrative disclosures (including on strategy, business model, risk and opportunities and performance) and the projections and cash flows that underpin the numbers in the financial statements.

In addition to the IFRS Standards, we also note the IASB’s management commentary project as an opportunity for greater alignment in narrative reporting frameworks.

*Question 7b – Can you list any relevant accounting standards that you have:*

*Authored;*

*Applied; or*

*Are Aware of?*

Deloitte, through its global organisation, is expert in IFRS, US GAAP and other local GAAP standards, supporting clients to apply standards as relevant and appropriate. We routinely give expert input as required to the development of standards and offer feedback in response to consultations. (Deloitte does not author standards.)

*Question 8 - The CDSB Framework regards Scope 1 and 2 GHG emissions to be material for all companies. Are there any issues or metrics related to natural capital that should be treated similarly?*

Yes [ ] or No [X]

If yes, please explain your answer.

We believe that what is material to a particular company should be determined by the company and its board of directors. Nature-related issues could become material for all companies if over-consumption and the depletion of natural capital lead to universal issues and impacts (eg arising from sea level increases/mass flooding or extreme loss of biodiversity), but nonetheless it is the directors of the companies who should determine if these issues are material to them and explain the basis of their decisions. This is consistent with the approach adopted in financial disclosure and reporting and leads to stronger governance and accountability.

*Question 9 – Are there any good examples in annual reports and accounts of companies reporting nature-related financial information that should be considered in the context of the CDSB Framework? Please explain.*

There are specific reports and initiatives that offer good examples that might be relevant, such as:

- Deloitte [Annual Report Insights](#)
- The finalists and winners of the Finance for the Future Awards<sup>1</sup>
- The companies who are participating in projects such as Accounting for Sustainability, or the Value Balancing Alliance, or who have adopted the Natural Capital Protocol.

*Question 10 – are you:*

*Aware of the CDSB Framework (i.e. not aware, somewhat aware or very aware of it)?*

*Have you read the CDSB Framework (Y/N)?*

*Have you reported against the CDSB Framework (Y/N)?*

*Have you ever advised on the application of the CDSB Framework through (auditing, authorship of the CDSB Framework, or peer review (Y/N)? If yes, in which capacity have you advised?*

Deloitte is 'very aware' of the CDSB Framework and has read it. Deloitte does not report against the CDSB Framework in its own reporting. We advise many clients on how to apply the principles in the Framework (predominantly in the sense of aligned approaches, rather than the Framework in its entirety), including assurance. (Deloitte is a TCFD supporter.)

*Question 11 – The CDSB Framework's dual focus on environment and climate-related financial disclosures shows how climate and environmental information are often related. What amendments would be needed to the CDSB Framework (see link in footnote 2) to cover both environment and climate?*

We do not have additional points beyond those that we made in connection with the guiding principles and reporting requirements and other areas above. Formal guidance, using the model already applied by CDSB for TCFD and climate-related disclosures, is a practical way to illustrate how the Framework can be applied in practice to nature-related disclosures.

*Question 12 – What changes, if any, would be required to the TCFD recommended disclosures Strategy c (on using scenario analysis to test the resilience of the organisational strategy to different plausible future climate states) to take into account changes in natural resource assets and the environment and related impacts and dependencies? How could this be best covered by the CDSB Framework?*

Scenario analysis and disclosure as set out in the TCFD recommendations make it clear that companies should consider the wider aspects of climate-related risks (including those related to natural capital) in order to understand impacts and trade-offs. In our view, the climate scenarios provide an essential reference point for understanding issues of natural capital, given the clear connection between global warming and related impact on natural capital. Furthermore, encouraging business to implement good scenario planning and disclosures in relation to climate change, as recommended in the TCFD, is a particular priority, given the urgency of the challenge. From these scenarios, companies would be in a position to contextualise related impacts arising from natural resources (for example, availability of resources, limits on the use of natural capital, impact from water, land use, loss of biodiversity etc).

In order to make the scenarios more useful in relation to natural capital, CDSB should consider providing further guidance on likely impact on nature arising under different global warming scenarios (1.5°, 2°, 3-4°), allowing companies to use that information to build in nature-related issues more readily. It would also be possible to devise scenarios on certain natural capital-related topics where quantifiable alternative scenarios could be considered (eg on water).

---

<sup>1</sup> See <https://www.financeforthefuture.org/>

In terms of the CDSB Framework, scenarios are already covered to a degree under REQ-03 – Risks and opportunities and under REQ-06 – Outlook. It may be appropriate to include more guidance generally on disclosures of scenarios, over time. For example, further requirements could be added on governance and controls around scenarios, which could in turn better serve the needs of external assurance.

*Question 13 – Given the existence of the CDSB Framework, does the world need another framework for disclosing nature-related financial information?*

Yes [ ] or No [X] Please provide further details.

We would not advocate for another framework. It is already well established that climate change impacts nature at all levels and therefore it is essential that companies consider their climate change and natural capital dependencies in an integrated manner. This should apply across all aspects of governance, strategy, risk and metrics. Many of the concepts that have been developed to address and report on climate change will apply to natural capital more broadly. As noted above, the CDSB Framework can be broadened in certain areas to cover nature-related disclosures, or gaps can be addressed through guidance and case studies.

Furthermore, we are already facing confusion and overload through the multiple frameworks, standards and guides already available. This plethora of initiatives is arguably now standing in the way of progress. Voluntary standards, codes, tools and methodologies have been developed with genuine intention to provide solutions as to how business works in the context of people and planet. But the number of competing offerings is hindering comparability between reporting organizations and leading to complexity in reporting and greenwashing in the system. It also acts as an excuse for those who prefer to remain opaque or not to report anything.

As a result, we believe alignment and consolidation is now needed more than proliferation. We also believe that a 'tipping point' has been reached in relation to information needs on climate change and that a global standard for non-financial reporting should now be the objective, building on the best of what we already have. Efforts should now go into establishing the mandate and structures needed to take this forward. Once established, the new standard setter should ensure that nature-related disclosures are covered as a topic within the standards.

*Question 14 – What mechanisms could help advance nature-related financial disclosures (e.g. mandatory disclosure etc.)?*

A starting point to advance nature-related disclosures would be to use the momentum behind TCFD, which already includes wider environmental issues and therefore covers natural capital to a significant degree. There is wide buy-in by market participants to TCFD (companies, investors, regulators, policy makers) which offers scope for it to be developed further as a global standard. Climate change is now accepted as both an existential threat and a significant issue relating to financial stability. As a result, regulatory interest is already leading to the prospect for mandatory TCFD disclosures (for example, in the UK by 2022 and possibly earlier for some financial institutions). Getting TCFD in place as a mandatory global standard alongside IFRS will advance the cause more generally – and given the impact of climate change on natural capital, in itself this step can lead to greater transparency in nature-related topics. With this in place, it would be practical to extend the standards to cover wider issues relating to natural capital and promulgate them via established processes (including due process and legal embedding).

Alongside this, we suggest that CDSB and others should continue to highlight the business case for incorporating natural capital into mainstream reporting to provide decision-useful information to investors and other stakeholders, evidencing how companies' use of natural capital impacts their prospects for value creation over time.

*Question 15 – How do we ensure that there is a global view to progressing nature-related financial disclosures?*

Crucially, we note that the context is already global, requiring a global approach. Companies are global or have international supply chains and customer bases, which is only increasing through technology. Investors and capital flows are global. Most importantly, climate change and impacts on natural capital have international causes and effects, requiring a co-ordinated global approach in response. Therefore we believe that a global approach to standard setting in this area is essential to provide information to evaluate the resilience of companies faced with the threats of climate change and the planetary limits in relation to natural capital.

To ensure a global view, we recommend:

- Positioning nature-related financial disclosures in the context of this global perspective, and continuing to collaborate closely and align with global frameworks and standard setters to meet ecosystem needs
- Leveraging the existing regulatory momentum behind TCFD to enhance or require climate change disclosures
- Building the evidence base of best practice by working with organisations such as Accounting for Sustainability, WBCSD and the Capitals Coalition.

*Question 16 – Do you have any other comments?*

We do not have further comments.

*Question 17 – CDSB’s work is largely built on a collaborative basis. Would you be interested in working with CDSB to drive this agenda globally or do you have ideas on how to advance this agenda?*

Deloitte is committed to continue to collaborate with CDSB alongside other related initiatives globally such as TCFD to enhance the quality, consistency and transparency of disclosures on climate, environmental and natural capital issues relevant to companies’ value creation. CDSB can be a catalyst towards alignment and integration within the corporate reporting system through the role it has played in TCFD adoption and guidance, the Reporting Exchange and within the Corporate Reporting Dialogue, among others. We consider that CDSB is in a very good position to drive further moves towards standardisation in this area – both climate-related disclosures and natural capital more broadly. As set out in the Accountancy Europe [paper](#) on Interconnected Standard Setting for Corporate Reporting (December 2019), we believe a ‘tipping point’ has now been reached and that we need to move to global non-financial reporting standards. This should be connected to financial reporting and build on the best of what we have. We encourage CDSB to advocate for this goal and drive towards a system change that is urgently needed to address the challenges of climate change.