

Carbon Reporting Communicating Climate Change Action

By Bartley O'Connor



As we await the introduction of Carbon Tax, it is likely that it will not be long before companies will be obliged to produce Carbon Reports to outline their position and strategy to deal with Climate Change. Bartley O'Connor discusses what this might entail.

As we approach the UN Climate Change Conference in Copenhagen in December, where world leaders will negotiate the terms of the next international climate treaty, policy makers are moving increasingly towards introducing climate change and greenhouse gas (GHG) emissions reporting. Some countries are already taking steps in this direction, such as the UK, where the world's first legally binding carbon budget was launched earlier this year. While mandatory reporting of greenhouse gas emissions and other factors contributing to climate change is not expected for all businesses in the short term, it is becoming clear that the time is not far off when it will be. As a result, many companies are looking to take a leadership position by preparing sustainability or greenhouse gas emissions reports.

In response, PricewaterhouseCoopers has developed a carbon emissions reporting model for business climate change and greenhouse gas emissions reporting. Until now, no clear example of reporting has been available to guide businesses on how and what to report on. The model is based on a fictitious listed technology company, Typico plc, producing consumer durables and IT products with operations in the US, Asia and the UK. It illustrates the strategy, targets, performance, and benchmarking of how the company is working to reduce its impact on, and adapt to, climate change.

The Typico report model sets out the following:

- ▶ **Management commentary including:**
 - ▼ Purpose of the report, and background to the company
 - ▼ Company climate change strategy
 - ▼ Impacts of climate change on the business
 - ▼ Governance of the business
 - ▼ Financial performance overview (impact of GHGs)
 - ▼ Regulatory schemes affecting the business
 - ▼ Director's responsibility and approval
- ▶ **Primary Statement of Greenhouse Gas emissions for the group**
- ▶ **Greenhouse Gas reporting policies**
- ▶ **Notes**
- ▶ **Assurance Statement**

The Typico model forms part of PwC's contribution to the work of the CBI Carbon Reporting Group in the UK, and the international Climate Disclosure Standards Board. The CBI's Carbon Reporting working group recently published a report on greenhouse gas emissions reporting. Amongst the proposals set out in the report were:

- ▶ a call for the government to create greenhouse gas emissions reporting guidelines based on the GHG protocol;
- ▶ for reporting requirements to align with existing carbon reduction commitment (CRC) and EU emissions trading schemes (ETS); and,
- ▶ for the government to establish what size of company will be mandated to report on its emissions.

The Climate Disclosure Standards Board (CDSB) was formed at the 2007 annual meeting of the World Economic Forum in response to increasing demands for standardised reporting guidelines on the inclusion of climate change information in mainstream reports. CDSB works to develop a globally accepted framework, based on existing standards, for corporate reporting on climate change.

Anticipating the potential requirements of guidelines by leading bodies such as the CDSB and the CBI, the Typico model provides a format to help companies create their own report, with a summarised version for inclusion in the annual report and account statements. It provides the first comprehensive demonstration of how companies could report their strategy and performance in dealing with climate change.

To date the format and composition of information published by

businesses on their sustainability strategies has varied widely. While the extent of disclosure will vary according to the nature and size of the company, the Typico example sets out what PwC believes to be good practice for larger companies and for companies who will potentially face mandatory reporting of greenhouse gas emissions.

The reporting guidelines will need to balance simplicity (so as not to burden business further) with presenting the information in a way that it is valuable and comparable with others. Regardless of how simple the reporting guidelines are, many businesses will look upon the need to report on carbon as simply another cost and burden on the business. However, it should not be seen as such. The introduction of carbon reporting may mark a watershed in corporate reporting, where companies begin to report on issues and opportunities beyond the standard financials. This may be a stepping-stone to the more widespread take-up of triple-bottom-line reporting, where a company presents its performance across three key dimensions – people, profit and planet.

The Typico model is the first to demonstrate how reporting on emissions connects financial and non-financial data to see the impact climate change can have on a business and its strategy. Rather than compliance and data reporting alone, forward looking analysis and statements of the risks and opportunities facing a business will become an established part of the reporting cycle. This model will support companies preparing to do that by helping them identify the right questions to ask, and the right data to measure and report on. Information presented in this context will more accurately reflect the real

risks – and opportunities – that climate change presents. It is information that all stakeholders – shareholders, customers, employees, partners, NGOs, regulators – will be interested in seeing to determine if the company fully understands the dynamic landscape in which it is operating, and the role it has to play within it.

As we move out of recession, the next challenge for the world economy will be how to reconcile high growth with low carbon. All companies need to understand what sustainability means for their business and what they need to do to compete in the emerging low-carbon world. This begins internally, going back to the company's mission and vision, looking at what it stands for and what its purpose is. It then needs to look at the potential impact sustainability could have on the business in the next 3, 5, possibly even 10 years. What are the inputs to the business – energy, water, raw materials, fuel – and what will the consequences be if they were to double in price, or worse still, not be available at all? What steps need to be taken now to avoid that situation down the line? Additionally, it needs to consider what new products and services it can introduce to meet the demands of a more informed, environmentally conscious consumer market.

What many companies miss around the sustainability agenda is the opportunities that exist. Yes, there are risks that need to be addressed and managed, and yes, there will be changes to processes, systems and work practices of employees. There will be a requirement to make certain investments. However, to truly assess the situation, a comprehensive business case needs to be prepared which highlights the opportunities also.

At its heart sustainability is about getting more out of less, being more efficient, taking waste out of the business. As a starter, the management team should consider the following:

- ▶ Have you assessed the opportunities, as well as the risks, that exist for your business as the world becomes greener?
- ▶ Do your employees know or care about how you do business?
- ▶ Have you assessed the business case for sustainability in your business?
- ▶ Do you know what your key customers expect of you now, and in the near future in relation to your performance around sustainability?
- ▶ How can your organisation differentiate itself from the competition by embedding sustainability into everything it does?
- ▶ How do you communicate your sustainability activities and progress against targets – internally and externally?

These are key strategic questions which need to be addressed before a company even considers producing a sustainability or carbon report. Ultimately, the real purpose of a sustainability report each year is to measure progress against questions such as the above, and to ensure that the company is moving in the right direction and at the right pace. It is demonstrating publicly in a clear and transparent way that the company is conducting business in a sustainable manner, and in doing so ensuring the sustainability of the business itself.

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Proposed Amendment to FRS 25

The Accounting Standards Board (ASB) has published a Financial Reporting Exposure Draft (FRED) proposing an amendment to FRS 25 (IAS 32) *Financial Instruments: Presentation*. The proposed amendment requires a rights issue involving the exchange of a fixed number of an entity's own equity instruments for a fixed amount of cash denominated in a foreign currency to be classified as an equity instrument. The comment period for the FRED closes on 15 December 2009.

IASB Completes First Phase of Financial Instruments Accounting Reform

The International Accounting Standards Board has issued a new International Financial Reporting Standard on the classification and measurement of financial assets. This represents the completion of the first part of a three-part project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with a new standard – IFRS 9 *Financial Instruments*.