GLOBAL FORUM
ON RESPONSIBLE
BUSINESS CONDUCT

Corporate Disclosure of Climate Change-Related Information: Convergence, Differences and Impact

18-19 JUNE 2015

OECD CONFERENCE CENTRE

PARIS, FRANCE

This note is a summary of a forthcoming report by OECD and CDSB analysing government schemes in G20 countries promoting corporate disclosure of climate-change related information. The report explores convergence and differences among these schemes, the extent and depth of information requested, the use of information by companies, investors and other stakeholders, and a preliminary assessment of the use and impacts of these schemes in changing business conduct and ultimately in contributing to governments' climate change objectives.

This summary serves as reference material for the session on Corporate Climate Change Reporting of the Global Forum on Responsible Business Conduct taking place in Paris on 18-19 June 2015. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

GREENING @OECD LET'S ACT TOGETHER AGISSONS ENSEMBLE

This conference is a paper-smart event organised in line with OECD greening policies. Only copies of the agenda will be available.

Corporate Disclosure of Climate Change-Related Information: Convergence, Differences and Impact

2015 – A momentous year for the climate change agenda

2015 is a momentous year for the climate change agenda. The 21st session of the Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change (UNFCCC) taking place in December in Paris has the potential to be one of the most transformative in recent years, as the international community attempts to reach a new, global climate change agreement.

Business engagement crucial to achievement of climate change objectives

Engagement with business and the private sector has been identified by many agencies preparing for COP21 as being crucial to the successful design, financing and implementation of measures to address climate change and to achieve the transition to a low carbon economy whilst meeting sustainable development goals and achieving economic growth.

In its New Climate Economy Report, the Global Commission on the Economy and Climate concludes that tackling the risks of climate change whilst achieving economic growth is dependent on structural and technological changes, flow of investment for innovation, strong political leadership and credible, consistent policies. The first of the report's proposed ten-point action plan is to accelerate low-carbon transformation by integrating climate into core decision-making processes at all levels of government and business. The supply by business of reliable climate change related information is crucial to that process.

Corporate climate change-related information

There is no universally agreed definition of "corporate climate change-related information", but generally it includes details of some or all of the following:

- The strategy, governance practices and policies implemented by companies to mitigate, adapt to and manage climate change impacts including extreme weather events, resource shortages and changing market conditions;
- Resource consumption that affects climate change, including of fossil fuels;
- Production of waste and pollutants that affect the climate including greenhouse gas (GHG) emissions;
- The principal risks and opportunities expected by the company as a result of climate change, for example, demand for new products, regulation related to climate and supply chain resilience.

An OECD study (Kauffmann et al., 2012) identified the common building blocks of corporate climate change-related reporting schemes as shown in Table 1.

Table 1: The "building blocks" that form part of the infrastructure of climate change-related reporting practice

Company				Government	
Scope and boundaries of GHG information	**Calculation methods**	**Verification or assurance**	**Reporting information**	**Enforcement**	**Use of information**
• Content of information to report; • Scope of emissions; • Boundaries; • Reporting entities	• Measurement standards and methods; • Source of emission factors	• Mandatory or voluntary; • Level of assurance; • Reference standards for verification	• Publication of information • Submission to a reporting platform	• Monitoring and compliance mechanisms; • Follow-up with companies	• GHG reduction program; • Pricing of emissions (taxes or emission trading), awareness building

Corporate reporting and alignment of business practice with the climate change agenda

The relationship between business activity and climate change is therefore reflected, inter alia, in the increasing demand for corporate climate change-related information. Corporate climate change reporting has featured in discussions at several high-profile, international events including COP20, the UN Climate Summit 2014 and the World Economic Forum's January 2015 annual meeting, signifying a growing desire for greater awareness and understanding of the relationship between business activity and climate change.

Corporate reporting approaches are therefore being developed as part of the infrastructure necessary to align business practice with climate change mitigation and adaptation plans and with sustainable development goals, one of which, under the UN's Open Working Group Proposal is to take urgent action to combat climate change and its impacts. In an effort to build that infrastructure and strengthen the drive towards greater corporate transparency and effective management of climate change, growing numbers of governments are developing both mandatory and voluntary schemes involving the corporate disclosure of climate change related information.

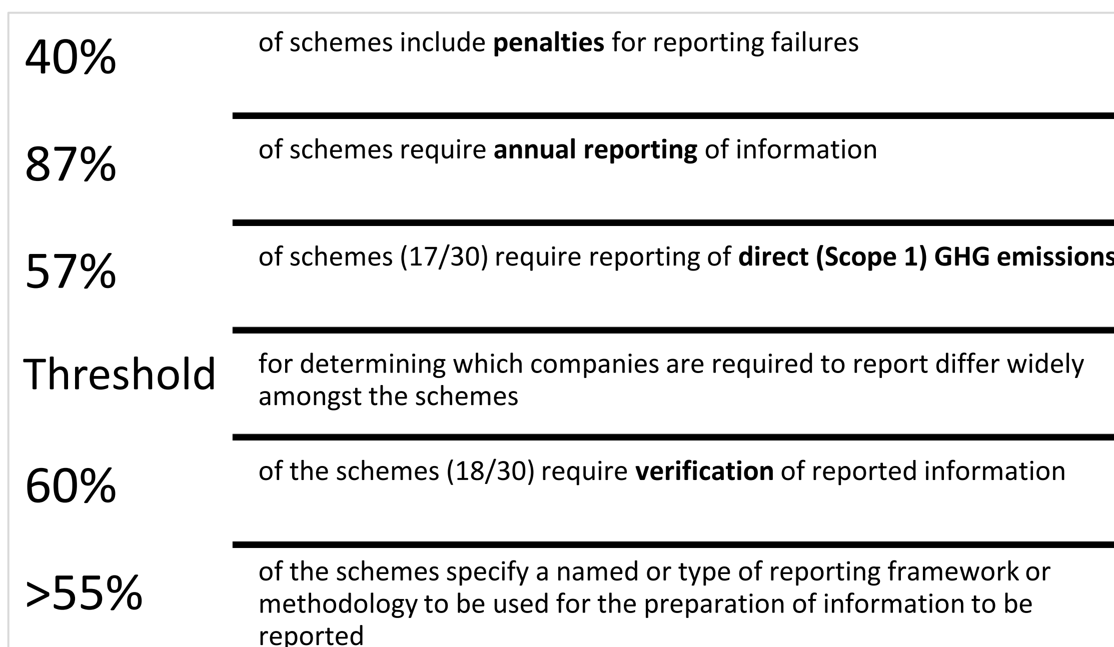
Corporate climate change-related reporting schemes introduced by G20 governments

Since the 1990s the majority of G20 countries have introduced some kind of active or prospective mandatory corporate reporting scheme that requires disclosure of some or all of the climate change related information described above.

Multiple policy routes for the introduction of schemes - The multi-disciplinary nature of climate change means that corporate climate change-related reporting requirements can be introduced through multiple legislative and voluntary routes. The requirements may be introduced through specific law on greenhouse gas reporting or embedded within wider environmental, climate change, sustainability, corporate social responsibility, governance or company law. For an increasing number of governments, corporate climate change reporting requirements and guidance are part and parcel of wider climate and sustainability policies and an integral element of market based mechanisms including greenhouse gas (GHG) emissions trading schemes. Corporate climate change–related reporting schemes do not therefore follow a uniform pattern. Each scheme's characteristics depend on the policy route(s) through which it has been introduced.

High-level trends High-level trends amongst mandatory corporate reporting schemes introduced by G20 member countries can however be observed. In particular, there are trends in the approach to conformance (i.e.: the applicable penalty and enforcement measures), the reporting period for which information is requested, the reference to enabling frameworks, guidance and tools and the requirement for reported information to be verified or assured. Trends based on a high-level review of a sample of schemes introduced by G20 countries appear in Figure 1.

Figure 1. Conformance, reporting period, threshold, framework and methodological trends among mandatory G20 climate change-related reporting schemes



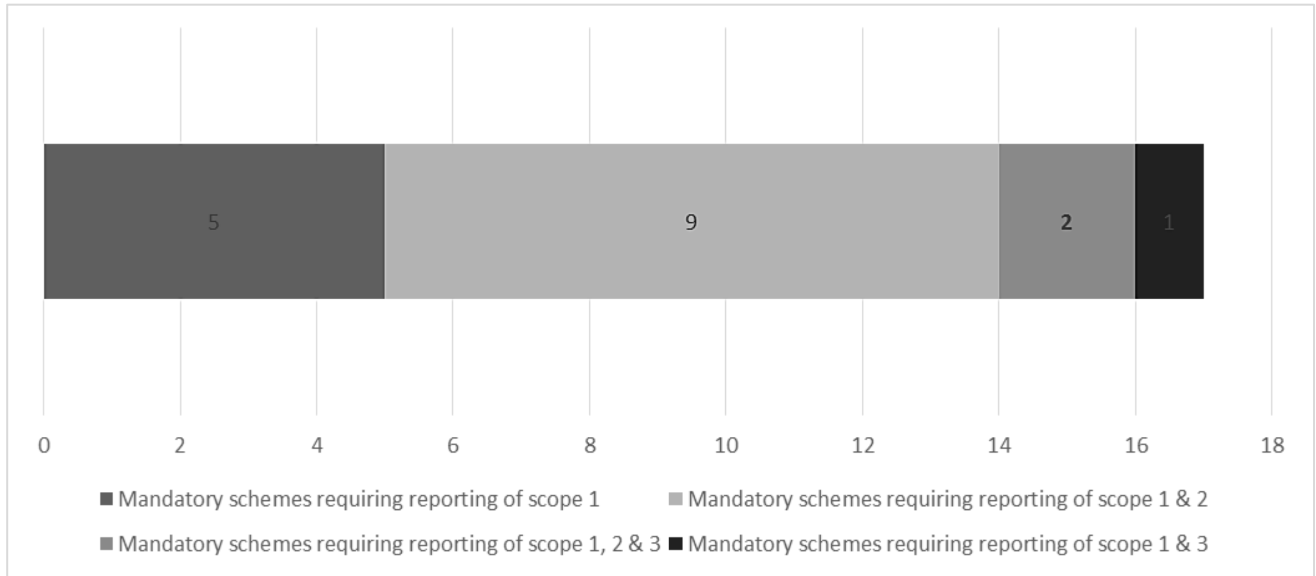
40%	of schemes include **penalties** for reporting failures
87%	of schemes require **annual reporting** of information
57%	of schemes (17/30) require reporting of **direct (Scope 1) GHG emissions**
Threshold	for determining which companies are required to report differ widely amongst the schemes
60%	of the schemes (18/30) require **verification** of reported information
>55%	of the schemes specify a named or type of reporting framework or methodology to be used for the preparation of information to be reported

Reference to enabling frameworks, guidance and tools There is evidence that many G20 member country schemes prescribe or prefer to specify the methodology that should be used for the preparation of reported information. In some cases where enabling guidance is referenced, it has been prepared by governments specifically to support reporting practice and conformance with the requirements of reporting schemes. In other cases, schemes state that information should be prepared based on enabling guidance produced by other organisations, including non-governmental organisations. In practice, a wide range of reporting frameworks and calculation methods are referenced.

Approach to the "scope" of information requested There is also evidence that many G20 reporting schemes require "direct" GHG emissions to be reported. Generally, the "scope" of the information is described by reference to the type of control that the company has over the activity, including GHG emissions. For example, if GHGs are emitted from facilities owned, controlled or operated by the reporting company, they are said to be "direct" emissions because they come directly from the company's owned, operated or otherwise controlled facilities. By contrast, if GHGs are emitted as a result of the consumption of electricity and other forms of energy, they are characterised as indirect GHG emissions. "Other" indirect GHG emissions arise as a result of the company's contractual relationships or activity through upstream or downstream supply chains. "Other" indirect GHG emissions are rarely requested through mandatory schemes introduced by G20 member countries .

Figure 2. GHG emissions scope captured by mandatory G20 climate change-related reporting schemes

(Scope 1 - direct GHG emissions from sources owned or controlled by the reporting entity. Scope 2 - emissions associated with the generation of electricity, heating/cooling, or steam purchased for the reporting entity's own consumption. Scope 3 - indirect emissions other than those covered in Scope 2)



Divergence in thresholds for reporting There is some variability between the thresholds that are used to identify which companies, or types of company, are subject to schemes. Thresholds are set by reference to a range of criteria including the:

- Extent of the company's GHG emissions;
- Number of employees; and
- Type of reporting entity.

Corporate climate change-related reporting schemes introduced by other organisations

In addition to mandatory reporting schemes introduced by Governments, a wide-range of voluntary corporate reporting schemes and enabling mechanisms have been developed over the last twenty years. Supra-national and non-governmental organisations are also developing a range of reporting and disclosure approaches. ,

Enabling mechanisms generally take the form of:

- Guidance to help companies prepare information to comply with mandatory or voluntary reporting requirements;
- Methodologies for monitoring and collecting activity data;
- Methodologies for calculating environmental results including GHG emissions etc;
- Guidance to raise awareness of and build climate change management and reporting practices; and
- Guidance to encourage voluntary adoption of behaviours and practices designed to monitor, manage and adapt to climate change.

Voluntary corporate reporting schemes and enabling mechanisms are developed by a range of organisations including governments, non-governmental organisations (NGOs), investor groups, business and professional coalitions and stock exchanges. Many voluntary reporting schemes have gained legitimacy and authority through the support of influential groups of stakeholders such as investors or large purchasing organisations that have an interest in using the information supplied in response to reporting schemes.

Benefits of climate change related reporting

Commonly cited benefits of climate change-related reporting include:

- Increased awareness of climate related risks and opportunities;
- Improved long-term management strategy and business planning informed by information gathered for climate change-related reporting;
- Streamlining of processes, cost reductions and improved efficiency;
- Better information for benchmarking and assessing climate performance;
- Reduced risk or environmental and governance failures,
- Mitigating or reversing negative climate impacts;
- Improving reputation and brand loyalty; and
- Building relationships with stakeholders.

Use and impact of reported climate change-related information

Climate change-related information is reported to a wide range of audiences such as governments, investors, large purchasing organisations, advocacy groups and civil society. The information can be used for multiple purposes including to inform consumer decisions, for assessment of performance against policy objectives, investment analysis and risk analysis. Companies themselves also use the information to derive benefits, including those listed above.

Investors Through the work of CDP, who provide the only global environmental disclosure platform for companies to report climate change and GHG emissions information to 822 institutional investors with assets of US$95 trillion, and others, there is significant evidence of investor demand for climate change-related information and evidence of investors using information for a range of purpose including:

- Monitoring GHG emissions trends;
- Engaging with companies on their approach to management of climate change risks and opportunities;
- Reduction of exposure to carbon-intense holdings;
- Investment research;
- Ranking and comparing companies on climate change leadership, operations management, supply chain management, product development and innovation and governance.

Purchasing organisations i.e.: companies that procure from and manage supply chains to secure goods and services use information from their suppliers to identify risk and to work with suppliers to manage climate risks and increase efficiencies. There is evidence that purchasing organisations work with their suppliers to:

- Agree GHG emissions reductions targets for suppliers;
- Develop climate risk metrics for monitoring and reporting risks;
- Develop data collection systems that support carbon management programmes operated by purchasing organisations; and
- Devise and apply purchasing group strategies on climate change to the whole value chain.

Challenges associated with climate change-related reporting

Whilst significant developments are being made in corporate climate change reporting, it remains a relatively young discipline facing multiple challenges including:

Fragmentation Studies by the OECD (Kauffmann et al., 2012) and CDSB (2012) indicate that, although they share some common characteristics, approaches to the introduction and development of corporate climate change related reporting requirements vary considerably. Although climate change related reporting is maturing and developing fast, there is a significant gap between approaches to climate change-related reporting and to financial reporting in terms of standardization, reliability and capacity to inform decisions and action. Despite the existence of guidelines and reporting frameworks, the lack of consistency and coherence between reporting requirements can be seen as complex, costly, confusing and burdensome for corporate preparers of information. The common features of national and regional climate disclosure approaches provide a strong basis from which further consistency in reporting could develop over time.

Reporting along the value chain Depending on the particular sector, direct GHG emissions represent a small proportion of organisations' overall carbon footprints. However, "other" indirect GHG emissions and value chain risks and impacts are rarely required by corporate climate change-related schemes. Furthermore, the identification and calculation of such emissions remains complex.

Capacity building An estimated 6,000 sustainability reports were published in 2011, with year on year growth of 17-20% from 2007 -2011 (UNEP, 2013). Roughly 95% of the world's largest companies now report on their sustainability (including climate change) performance. However, there is also evidence (Ceres, 2014) of poor compliance with regulatory requirements to report climate risk. Also, although the number of reports is increasing, reporting companies still only represent a small share of global business with its roughly 82,000 multi-national enterprises and many more SMEs (CREM & Adelphi, 2010).

Verification or assurance of corporate climate change disclosures helps produce accurate, reliable and transparent information. Evidence of the number of schemes requesting assurance of information is encouraging. However, the quality of assurance is rarely stipulated and standards for conducting assurance activities are limited.

Placement Climate change related information is currently reported through multiple routes including:

- To central governmental bodies where required;
- By publication of a sustainability report;
- In annual financial reports through inclusion of specific sections on environmental information; and
- On company websites.

The disparity of placement can create confusion for stakeholders and impede their access to the information.

Technical Reporting challenges affect many types of corporate reporting, including on climate change. Challenges include how to define materiality for climate change-related reporting purposes, which metrics or indicators to use for communicating climate change information and how they should be calculated, how to account for carbon instruments and report stranded carbon asset risks and how to identify and communicate the organisational boundary of the reporting organisation (for example whether and to what extent information should be reported about the activities of a parent company, its subsidiaries, joint operations and ventures, associates suppliers and upstream and downstream activities).

Link to context and desired outcomes The contribution and impact that climate change related reporting makes is evidenced by the outcomes that are reported by companies against targets set by companies. Therefore companies can identify the benefit of reporting for themselves. However, in the absence of clear outcomes expected from corporations, it is hard to determine the overall impact of their reported actions on climate change or to assess the overall global effectiveness of business activity against climate objectives and goals.

Addressing these challenges would help assess whether and to what extent companies are making an effective contribution to global climate change objectives.

Bibliography

CDSB (2012) The case for consistency in corporate climate change-related reporting, CDSB Working Paper

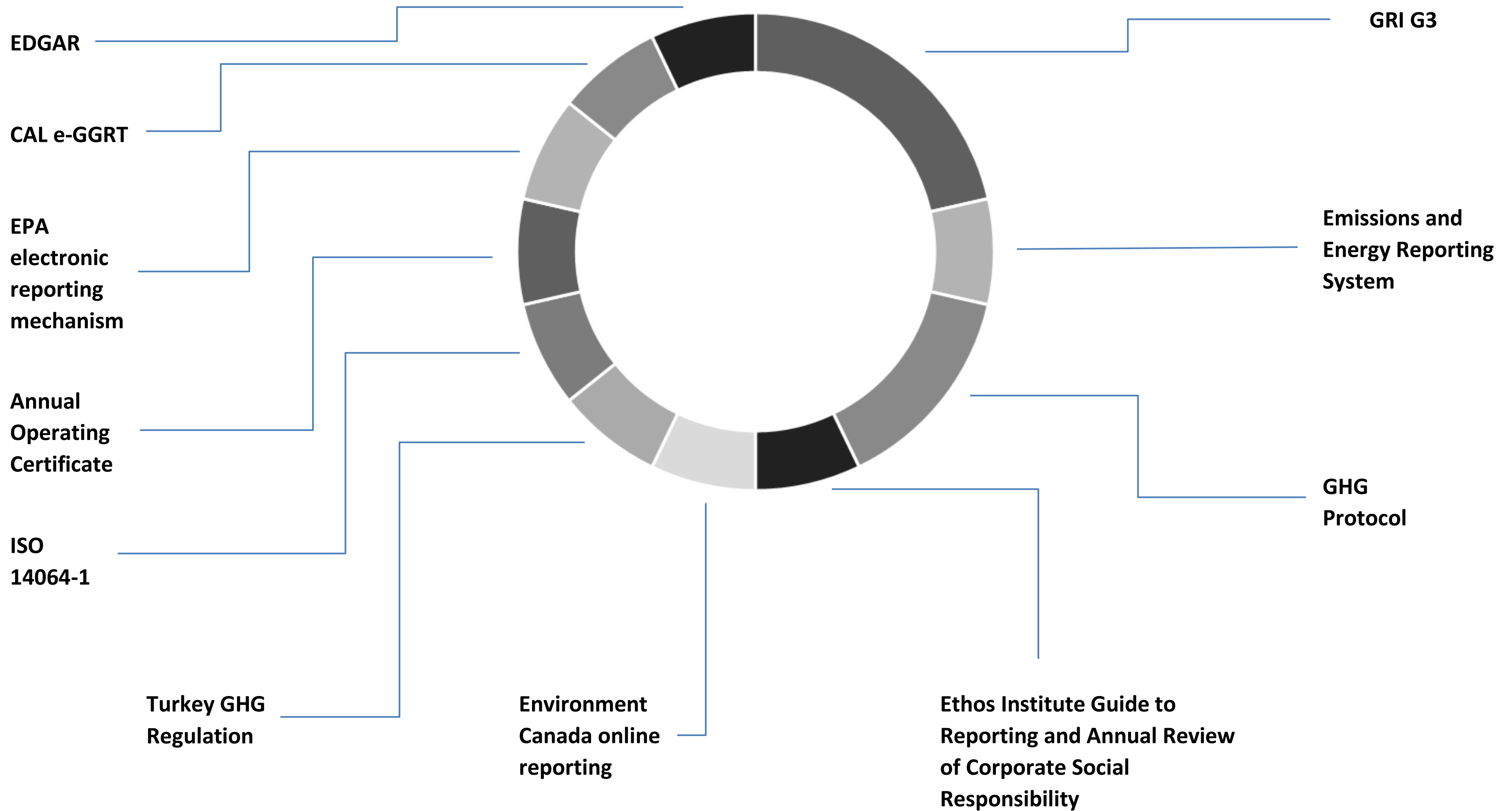
Ceres (2014) Cool Response: The SEC & Corporate Climate Change Reporting - g—SEC Climate Guidance & S&P 500 Reporting: 2010-2013

CREM and Adelphi (2010) The State of Play in Sustainability Reporting in the EU

Kauffmann, C., C. Tébar Less and D. Teichmann (2012) “Corporate Greenhouse Gas Emission Reporting: A Stocktaking of Government Schemes”, OECD Working Papers on International Investment, 2012/01, OECD Publishing

UNEP (2013) Frequently asked questions on corporate sustainability reporting

Figure 3. Examples of reporting frameworks referenced in G20 mandatory climate change-related reporting schemes (in forthcoming OECD & CDSB review of a sample of schemes introduced by G20 member countries)



mneguidelines.oecd.org