

Climate Disclosure Standards Board  
c/o CDP  
40 Bowling Green Lane  
London  
EC1R 0NE

Ms Jennifer Guest  
Financial Reporting Council  
8th Floor  
125 London Wall  
London  
EC2Y 5AS

8<sup>th</sup> July 2014

## CDSB response to Financial Reporting Council's XBRL Accounts Taxonomies Consultation

Dear Ms Guest,

We welcome the opportunity to provide input into the development of the FRC's XBRL Accounts Taxonomies. CDSB sees XBRL as the future medium for reporting corporate financial and non-financial information, providing higher quality data to financial markets and other stakeholders. As such, we support the FRC's work in developing this taxonomy.

The Climate Disclosure Standards Board (CDSB) is a consortium of business and environmental organizations<sup>1</sup> formed at the World Economic Forum's annual meeting in 2007. Its purpose is to jointly develop and advocate an international Framework<sup>2</sup> for the integration of climate change-related information into mainstream corporate reports. Following the traditions of accounting and financial stability standards setters, CDSB's work is designed to deliver the transparency and accountability needed for decisions to be made and capital to be deployed in support of a low carbon economy.

CDSB has the only global Framework designed specifically for the inclusion of climate change information into annual reports. The CDSB Framework<sup>3</sup> allows companies to disclose non-financial information into corporate reports in a manner that is standardized, consistent and comparable. The CDSB Framework draws on the work of CDSB's Board Members, on international developments in corporate disclosure and on the work of the International Accounting Standards Board (IASB). Edition 1.1 of the CDSB Framework is referenced by Defra as a method for compliance<sup>4</sup> with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

CDSB, with its Board Member CDP, has worked with an expert Technical Working Group<sup>5</sup> to develop the XBRL climate change reporting taxonomy<sup>6</sup> for reporting greenhouse gas emissions and other climate change-related matters in mainstream corporate reports, such as the Director's Report. This taxonomy is based on the CDSB Framework (Edition 1.1).

Our specific and general comments on the XBRL consultation follow in an appendix.

Kind regards,  
Michael Zimonyi  
*Project Officer, CDSB*

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<sup>1</sup> Members of the CDSB Board, available at [<http://www.cdsb.net/about-cdsb/leadership-governance/cdsb-board-members>]

<sup>2</sup> CDSB Framework (edition 1.1), available at [<http://www.cdsb.net/Framework>]

<sup>3</sup> Ibid.

<sup>4</sup> Defra, 2013, Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance, p. 29, available at [<https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance>]

<sup>5</sup> CDSB XBRL Technical Working Group, available at [<http://www.cdsb.net/priorities/xbrl/ccrt-technical-working-group>]

<sup>6</sup> The taxonomy can be downloaded from [<http://www.cdsb.net/priorities/xbrl/cdsbs-xbrl-project>]

## Appendix

### General comments

We hope that our comments below will be of use in creating a taxonomy that is aligned with the spirit of the regulations and is useable in practice. Please note that due to the area of our expertise, our comments will solely refer to elements under the “Greenhouse gas emissions” heading.

We have serious concerns regarding the implementation of the recent Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013<sup>7</sup> in the taxonomy. As it currently stands, we feel that this aspect of the taxonomy is not fit for purpose, as it does not take into account the greenhouse gas reporting standards used in practice; rather it is a word-for-word copy of the legislation text. This is a gross oversimplification of greenhouse gas reporting. Keeping the taxonomy in its current state could cause the creation of yet another greenhouse gas reporting standard, which would be unsupported in its development. Instead, we suggest extending the IFRS taxonomy with the climate change taxonomy<sup>8</sup> developed with experts in the field of greenhouse gas reporting and is based on existing standards that are used in practice.

### Consultation question comments

1. *Does the content of the taxonomies accurately reflect expected reporting under the relevant standards?*

We do not see how the taxonomy reflects relevant standards for greenhouse gas reporting. The definition of the elements is the exact wording as the relevant section in the Companies Act. As with financial reporting, greenhouse gas reporting also relies on standards to define how to report. The amendment to the Companies Act sets the requirement, while the guidance by Defra sets out the relevant standards to be used to comply with the regulation. The CDSB Framework (Edition 1.1) is a standard referenced in this guidance for compliance with these requirements. It is unique in the sense that it is the only standard that outlines how to report such information in a mainstream corporate report, such as the Director’s Report. The CDSB Framework also references the methodologies and guidelines used by the vast majority of companies affected by this new requirement.

2. *Is the content clear and unambiguous?*

“AnnualQuantityEmissionsInTonnesCarbonDioxideFromCombustionFuel”

This wording was copied verbatim from the legislation without any context, thus rendering the wording very vague. This is relevant since the amendments require the reporting entity to report emissions “*from activities for which that company is responsible*”, however this element is not built on and does not link to any standard to determine what this means. In addition, the unit should be ‘carbon dioxide equivalent’, as required by the Companies Act, to take into account the 5 Kyoto gases that are not carbon dioxide.

“AnnualQuantityEmissionsInTonnesCarbonDioxideFromOperationAnyFacility”

The wording of “any facility” is too ambiguous. It also doesn’t take into account the boundary setting used. This is an important factor, as it is up to the reporting entity to define which emissions it is responsible for. This unit should also be carbon dioxide equivalent.

“AnnualQuantityEmissionsInTonnesCarbonDioxideFromPurchaseElectricityOrOtherFuelForOwnUse”

This unit should also be carbon dioxide equivalent.

“AnnualEmissionsAsPercentageQuantifiableFactorAssociatedWithEntitysActivities”

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<sup>7</sup> The Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013, available at <http://www.legislation.gov.uk/ukxi/2013/1970/made>.

<sup>8</sup> <http://www.cdsb.net/priorities/xbrl/cdsb's-xbrl-project>

We have never come across of a company reporting an intensity ratio (a more commonly used expression for “ratio which expresses the quoted company’s annual emissions in relation to a quantifiable factor associated with the company’s activities”, as mentioned in the Companies Act) as a percentage. This unit would therefore require reporting companies to report their intensity metric in a different way to what they have done in the past. The unit is usually CO<sub>2</sub>e divided by another metric, such as revenue, number of employees, etc. We are not sure how this can be expressed as a percentage. For example, what would 100% mean?

“DescriptionReportingPeriodForEmissionsDataIfThisDifferentFromPeriodCoveredByDirectorsReport”

To the best of our knowledge, the reporting period can be set when disclosing each fact. Is there a need for this element?

There are also several missing elements in the taxonomy, for example the boundary setting used.

3. *Does the Design Document explain changes to the accounts taxonomies in ways which are useful and pertinent?*

We have no comments on this matter.

4. *Would it be helpful to have the taxonomies supported by ‘consistency checks’ and, to what extent are those seen as necessary rather than desirable?*

Consistency checks are useful in eliminating human or entry errors; we support their use.

## Other matters

Our view is that creating a new set of elements that are not defined by an existing standard is not a sensible or justifiable approach. Instead, we recommend that the taxonomy is extended with the climate change reporting taxonomy, which is based on an internationally recognised standard referenced by Defra as a method for compliance with the greenhouse gas reporting requirements of the Companies Act.

## Definition of elements

The elements in the Accounts Taxonomy do cover some of the requirements outlined in the Companies Act, but in practice we feel that it may be restrictive for preparers to reflect the information that they report in their conventional PDF reports within these bounds. There is of course a case for restricting reporting given consistency and comparability considerations, but we do not think that this solution would allow for that. Based on our review of the first year of mandatory greenhouse gas reporting, there is a need to provide for narrative information to accompany the data reported, in order to give it the correct context and interpretation.

Some companies have gone beyond the requirements (as encouraged by Defra) and have reported more information, as well as substantial narrative around it. This is where the climate change reporting taxonomy is uniquely appropriate. The subject matter that the climate change reporting taxonomy was built on was designed to be able to accommodate these variations in the standards used, as well as structure any additional information in a consistent and meaningful way, by drawing on and referencing the standards used by companies for greenhouse gas reporting. We see the taxonomy as a highest common denominator of the requirements outlined in the existing standards for greenhouse gas reporting (thus inclusive of various approaches) that were outlined in the guidance prepared by Defra.

Narrative text is also important if a company determines that, based on Chapter 4A, Section 414C (4) (b) environmental matters are “*necessary for an understanding of the development, performance or position of the company’s business*”. In this case, the company will have to report these matters in its strategic report. As a consequence, the requirements of the content of the strategic report will then dictate that the information should have more narrative associated with it. This would be difficult to undertake with the proposed XBRL elements.

## Greenhouse gas reporting standards

The greenhouse gas aspect of the taxonomy should be based on greenhouse gas reporting standards, not the Companies Act, in the same way that financial aspects are based on IFRSs. IFRSs reflect requirements set out for financial reporting. These are necessary because the rules and methodologies used in accounting are more complex than can be described within the bounds of the Companies Act. As such, the elements for financial reporting are based on the IFRS taxonomy. However, the elements for climate change have been based on the exact wording of the Companies Act (about a page long), which is completely inappropriate given it cannot describe how large, potentially multinational companies should account for greenhouses adequately, amongst many other issues. In financial reporting the need for this “intermediary” is clearly understood. It is also understood how IFRSs fit into the requirements for preparing reports in accordance to the Companies Act. Since greenhouse gas reporting is a new focus, thinking may not be as advanced in this area. We recommend a consistent approach is adopted for greenhouse gas reporting as for financial reporting.

We are unsure why the taxonomy has no connection to the Greenhouse Gas Protocol, the de-facto calculation methodology used for greenhouse gas reporting. The climate change reporting taxonomy is built on a standard that utilises this methodology to ensure alignment and usability of information.

## Conclusion

We recommend that the FRC avoid redefining greenhouse gas reporting elements. There is a significant risk of companies experiencing confusion as well as of discrepancies developing between the data prepared using XBRL and reported in the conventional version of the Director’s report. We strongly recommend the adoption of the climate change reporting taxonomy which is based on pre-existing standards and which has the flexibility needed to accommodate the content reported by complying entities.

We would welcome the opportunity to work with the FRC to ensure that the final version of the taxonomy is in line with the requirements of the Companies Act and that is readily adoptable by companies.