

# CLIMATE CHANGE DISCLOSURE STANDARDS AND INITIATIVES: HAVE THEY ADDED VALUE FOR INVESTORS?



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September 2006

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# 1. Introduction

In recent years, institutional investors have actively encouraged companies to disclose information on the business risks and opportunities presented by climate change. Perhaps the most high profile investor initiative has been the Carbon Disclosure Project, now supported by 211 institutional investors representing more than US\$31 trillion in assets under management. Institutional investors have also contributed to the Global Reporting Initiative (which nearly 1,000 organisations in over 60 countries currently use as the basis for their environmental and social reporting) and, in May 2005, 14 leading investors and other organisations worldwide launched a new effort to improve corporate climate change disclosures — the Climate Risk Disclosure Initiative.

These initiatives – in particular the Carbon Disclosure Project – have played an important role in raising the awareness of climate change as a business issue and have contributed to companies increasing their reporting in this area. Yet it has become increasingly clear that the various disclosure initiatives are not providing the information required to allow investors to properly assess the financial implications of climate change. For example, Insight Investment recently issued a report analysing the quality of the disclosures provided by European electricity utilities. Despite the fact that many of the companies analysed provide responses to the Carbon Disclosure Project and report in line with the Global Reporting Initiative guidelines, the report stated: “While many of the electricity utilities reviewed provide a significant amount of information on their greenhouse gas emissions and related aspects of their business strategy, the majority do not provide sufficient information for our needs as an institutional investor. For most of the companies we analysed, it was not possible to fully understand the risks and opportunities presented by climate change for their business, nor was it possible to assess the implications of climate change for their longer-term strategy... [O]ur comments also apply more generally. We have reviewed disclosures in other sectors that are significantly exposed to climate change policy and/or the physical impact of climate change and a similar picture emerges; the reported data tend to be incomplete and backward-looking, and it is difficult to make meaningful comparisons regarding the climate risk exposure of different sectors”.<sup>1</sup>

The purpose of this brief report is to stimulate discussion about the future direction of climate change disclosure standards and initiatives. Our aim is to set out what we see as the major weaknesses with current corporate disclosures on climate change and to discuss the potential contribution of disclosure initiatives to address these weaknesses. Our analysis is based on our experience with the design and implementation of these initiatives – we have been a signatory to the Carbon Disclosure Project (CDP) since its inception, we have been a member of the advisory committee for the development of the Global Reporting Initiative's (GRI's) G3 reporting guidelines and we are presently a member of the multi-stakeholder working group developing a pilot version of a GRI sector supplement for the energy utilities sector, and we have provided comments, through the Institutional Investors Group on Climate Change (IIGCC) on drafts of the Global Framework for Climate Risk Disclosure produced as an output from the Carbon Risk Disclosure Initiative – as well as our efforts to use the data reported by companies in our investment analysis.

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<sup>1</sup> R. Sullivan and J. Kozak (2006), “The Climate Change Disclosures of European Electricity Utilities” (Insight Investment, London), p. 10.

The report is divided into three main sections. In Section 2 we provide a brief description of the Carbon Disclosure Project, the Global Reporting Initiative and the Global Framework for Climate Risk Disclosure. In Section 3, we offer our perspective as an institutional investor on the usefulness of the information provided by the various disclosure initiatives. In Section 4, we offer some specific recommendations for improving corporate climate change disclosures.

## 2. The Disclosure Standards and Initiatives

In this report we focus our attention on the three main investor-related disclosure initiatives relating to climate change:

- The Carbon Disclosure Project
- The Global Reporting Initiative
- The Global Framework for Carbon Risk Disclosure

### 2.1 The Carbon Disclosure Project

The Carbon Disclosure Project (CDP)<sup>2</sup> was launched in 2000. Its stated aims are:

- To inform investors about the significant risks and opportunities presented by climate change.
- To inform companies about shareholders' concerns regarding the impact of climate change issues on company valuations.

In order to deliver on these aims, CDP solicits, on behalf of institutional investors, climate change-related information from some of the world's largest listed companies. The number and value of assets under management of investors supporting CDP have increased significantly in recent years. Thirty-five investors representing US\$4 trillion in assets under management supported CDP in its first year in 2001; since then, the number of investors supporting CDP has grown to 211, representing more than US\$31 trillion in 2006.

Since its launch, CDP has sent out four questionnaires. The first three (CDP1 in 2002, CDP2 in 2003, and CDP3 in 2005) were sent to the 500 largest companies in the world, based on market capitalisation – the Fortune 500. The fourth questionnaire (CDP4) was sent in February 2006 to approximately 1,900 companies including, among others, those in the Fortune 500, the S&P500 and the FTSE 100, as well as 300 of the largest electric utilities globally, 300 of the largest greenhouse gas emitters in Canada, 200 of the largest companies in Germany, 150 of the largest Japanese companies, 150 of the largest companies in Australia and New Zealand, 120 of the largest companies in France, 50 of the largest companies in Brazil, and 40 of the largest companies in Asia (outside of Japan).<sup>3</sup>

CDP's questionnaire has changed significantly over the years. While CDP1 focused primarily on emissions and emissions reduction programmes, CDP2 additionally requested information on issues such as governance and strategy, the methodology used to calculate emissions and the European Union Emissions Trading Scheme. CDP3 included questions regarding emissions intensity and climate change-related innovations. CDP4 included several questions relating to companies' strategic approach to climate change.

CDP's response rate has measurably improved with each questionnaire: 45% of Fortune 500 companies responded to CDP1; 60% to CDP2; and more than 71% to CDP3.<sup>4</sup>

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<sup>2</sup> [www.cdproject.net](http://www.cdproject.net)

<sup>3</sup> In order to extend the coverage of CDP4, the CDP has worked in partnership with other groups (including the Investor Network on Climate Risk (INCR), the Canadian Conference Board, the German Investment and Asset Management Association, the Association for Sustainable and Responsible investment in Asia (ASRIA), the Australian/New Zealand Investor Group on Climate Change, the UK Climate Impacts Program).

<sup>4</sup> Data for CDP4 are not available at the time of writing (August 2006). The results of CDP4 will be released in September 2006.

Companies' responses are made available through the CDP website. In addition, for each iteration of the questionnaire, CDP has published a report (in conjunction with Innovest Strategic Value Advisors<sup>5</sup>) analysing the information obtained. In 2005, the report included a Climate Change Leadership Index (CLI), comprising the 60 'best in class' responses to the questionnaire.<sup>6</sup> The CLI members were selected on the basis of the breadth of the issues covered in their responses, the depth, completeness and sophistication of the responses, and an assessment of the companies' strategies, risk management capabilities and strategic positioning.<sup>7</sup>

## 2.2 The Global Reporting Initiative

The Global Reporting Initiative (GRI) is an independent, non-profit international organisation located in Amsterdam, The Netherlands.<sup>8</sup> GRI's mission is to make sustainability (economic, environmental and social) reporting by companies and other organisations as routine as financial reporting through the creation of a voluntary, globally applicable reporting framework. The aim is to ensure that such reporting is as consistent as possible across organisations, thereby facilitating comparison between reporting organisations.

The GRI Sustainability Reporting Guidelines 2002<sup>9</sup> are the central product of the GRI. Other products include technical protocols and sector supplements. The Sustainability Reporting Guidelines outline the core content for reporting – including indicators – that is broadly relevant to all organisations regardless of size, sector or location. The environmental performance section of the Guidelines includes several climate change and energy-related indicators, namely: direct energy use segmented by primary source (indicator EN3), indirect energy use (EN4), direct and indirect greenhouse gas emissions for the six major greenhouse gases (EN8 and EN30), and initiatives to use renewable energy sources and increase energy efficiency (EN17).

All organisations seeking to report using the GRI framework should use the Guidelines as the basis for their reporting, supplemented by other GRI documents as applicable. The GRI technical protocols provide guidance on the application of the GRI indicators. The sector supplements are intended to ensure that the unique set of sustainability issues for different sectors are captured and reported, and are intended to complement rather than replace the Guidelines.<sup>10</sup>

At the time of writing (August 2006), GRI is in the process of updating its Guidelines. This 'third generation' of GRI Guidelines, known as G3, was available in draft form for public comment from 2 January to 31 March 2006 and is scheduled for release in October 2006.<sup>11</sup> One of the features of G3 is that it strengthens the 'vision and strategy' section of the Guidelines by requiring companies to disclose information about "...the impact of

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<sup>5</sup> An investment research and advisory firm specialising in analysing companies' performance on environmental, social, and strategic governance issues, with a particular focus on the impact of these issues on competitiveness, profitability, and share price performance.

<sup>6</sup> Innovest (2005), *Carbon Disclosure Project 2005* (Innovest and CDP, London).

<sup>7</sup> [www.cdproject.net/climateleaders.asp](http://www.cdproject.net/climateleaders.asp)

<sup>8</sup> [www.globalreporting.com](http://www.globalreporting.com)

<sup>9</sup> GRI (2002), *Sustainability Reporting Guidelines* (GRI, Amsterdam).  
[www.globalreporting.org/guidelines/2002/gri\\_2002\\_guidelines.pdf](http://www.globalreporting.org/guidelines/2002/gri_2002_guidelines.pdf)

<sup>10</sup> To date, sector supplements have been developed for the financial services, logistics and transportation, mining and metals, public agency, tour operator and telecommunications sectors. A sector supplement for the automotive sector is forthcoming and sector supplements for apparel and footwear and energy utilities are presently being developed.

<sup>11</sup> <http://www.globalreporting.org/guidelines/06g3oct06.asp>

sustainability trends, risks and opportunities on the prospects of the organization. This should concentrate specifically on information that is material for financial stakeholders or could become so in the future".<sup>12</sup> Such information should include tables summarising priorities, objectives and medium-term goals (i.e. 3-5 years) for key risks and opportunities.

## 2.3 The Global Framework for Climate Risk Disclosure

The Climate Risk Disclosure Initiative (CRDI) was launched at the May 2005 Institutional Investor Summit on Climate Risk at the United Nations.<sup>13</sup> The CRDI brought together leading institutional investors and other international organisations<sup>14</sup> to develop a reporting standard to help improve corporate disclosure worldwide on climate risk in order to assist fiduciaries in making better informed investment decisions.

The Global Framework for Climate Risk Disclosure, which is being developed by CRDI, aims to provide standardised guidance on what attributes characterise successful corporate climate risk disclosures, with the objective of encouraging companies to provide information on climate change risks and opportunities in a standardised manner that will allow investors to analyse this data and compare companies. The Framework is scheduled for release later in 2006.

The Framework is expected to encourage companies to provide:

- Historic and projected greenhouse gas emissions, both direct and indirect.
- A strategic analysis of climate risk and emissions management, including: (a) a statement of the company's current policy position on climate change, (b) an explanation of the significant actions the company is taking to minimise its climate risk and to identify opportunities (including the emissions reductions expected to result from these activities), and (c) a description of the company's governance of climate change.
- An assessment of the physical impact of climate change on the business.
- An analysis of risk related to the regulation of greenhouse gas emissions, including an assessment of the costs associated with reducing the company's greenhouse gas emissions.

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<sup>12</sup> GRI (2006), Draft *Sustainability Reporting Guidelines* (GRI, Amsterdam), Part 2: Standard Disclosures, Section 1: Strategy and Analysis. [www.grig3.org/pdf/g3guidelines.pdf](http://www.grig3.org/pdf/g3guidelines.pdf)

<sup>13</sup> [www.ceres.org/pub/docs/Ceres\\_2005IISummit\\_finalreport\\_ES\\_1005.pdf](http://www.ceres.org/pub/docs/Ceres_2005IISummit_finalreport_ES_1005.pdf)

<sup>14</sup> The Steering Committee members included CalPERS, CalSTERS, CDP, Ceres and the Investor Network on Climate Risk, the Connecticut Office of the State Treasurer, GRI, the Institutional Investors Group on Climate Change, the Investors Group on Climate Change Australia, the United Nations Environmental Programme Finance Initiative, the United Nations Foundations, the United Nations Fund for International Partnerships and the Universities Superannuation Scheme.

## 3. Observations

While the various disclosure initiatives have played an important role in stimulating interest in climate change and in setting out some broad parameters for corporate climate change disclosure, our experience is that corporate disclosures on climate change still do not properly meet investors' needs. In particular:

- Reported data focuses on historic rather than future performance.
- The quality and presentation of reported data is poor and there are limited drivers for data quality improvement.
- Generic disclosure requirements do not provide the sector-specific information necessary for investors to make a proper assessment of corporate exposures to climate change.
- The multiplicity of disclosure initiatives may confuse companies regarding the specific information required by investors.
- Investors have not sent sufficiently strong signals to companies regarding the importance investors assign to climate change as an investment issue or the importance of companies providing appropriate disclosures on their climate change-related risks and opportunities.

### 3.1 The need for forward-looking data

As investors, we are interested in both in trends in historic performance and, perhaps more importantly, in the future prospects for businesses. In relation to climate change, we are interested in the future changes in greenhouse gas emissions from companies' operations, the potential physical impact of climate change on operations and activities, and the financial implications of policy and regulation directed at reducing emissions or addressing the physical impact of climate change. Yet, as we noted in our report on the disclosures of electricity utilities: "...virtually without exception, company reporting focuses on historic performance rather than on the consideration of future trends in policy and company emissions".<sup>15</sup>

Many of the companies in which we invest – not only in the electricity sector – report in accordance with GRI and have also responded to the CDP questionnaires. One of the weaknesses of both CDP and GRI has been that they have focussed primarily on current and historic performance rather than future performance and impacts.<sup>16</sup> CDP<sup>17</sup> and GRI<sup>18</sup> have both started to request forward-looking information on corporate strategy but neither explicitly request information on expected future greenhouse gas emissions. However, the Global Framework for Carbon Risk Disclosure is expected to explicitly request that

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<sup>15</sup> Sullivan and Kozak (note 1), p. 10.

<sup>16</sup> For example, in the guidance on the CDP4 questionnaire, CDP requests information on the last four measurement years (i.e. the most recent four years' – calendar or other period - data).

<sup>17</sup> CDP4 requests information on (a) the financial and strategic impacts of proposed future regulation of greenhouse gas emissions, (b) the firm's emission reduction strategy including emission reduction targets and timeframes, and (c) expected impacts on profitability from changes in energy prices and consumption.

<sup>18</sup> See Section 2 of this report.

companies provide information on both current and projected greenhouse gas emissions<sup>19</sup> and scenario analyses.

We recognise that companies face practical challenges in providing forward-looking information, in particular the inevitable uncertainties that surround any effort to predict emissions and the potential liability risks associated with providing information that subsequently proves to be incorrect. However, we are of the view that these problems are not insurmountable. For example, in our report on electricity utilities, we proposed a framework for companies to provide information on their strategy, their investment plans and the implications for their greenhouse gas emissions, with an appropriate treatment of the uncertainties in emissions projections.

## 3.2 Data quality and presentation

In our report on the climate change disclosures of European electricity utilities, we highlighted a series of concerns around the quality of the data being provided by companies and the resulting difficulties we faced in making meaningful comparisons between companies. The issue of data quality has been recognised by Innovest, who, in relation to the data provided in response to CDP3, commented: “In order to provide financial analysts with reliable and accurate research on the investment implications of climate change, financial analysts require consistent and comparable data on company-specific emissions. The quality of currently available emissions data, while steadily improving, still falls far short of the quality expected of traditional financial data”<sup>20</sup> and also noted that “The single biggest problem is lack of disclosure. Among the FT500 constituents, only 46% disclosed emissions data in CDP2 and only 54% disclosed emissions data in CDP3”.<sup>21</sup>

In order to ensure better data quality and comparability a greater focus needs to be placed by data collection initiatives on:

- Ensuring that all companies follow a single disclosure standard;
- Ensuring that companies treat issues such as reporting boundaries in a consistent manner;
- Asking precise, sector-specific questions rather than open-ended generic climate change-related questions (see further Section 3.3); and
- Assuring the quality of the reported data.

In relation to the first point, both CDP and GRI highlight the World Business Council for Sustainable Development’s (WBCSD’s) Greenhouse Gas Protocol<sup>22</sup> as providing the preferred framework for reporting, and it is expected that the Global Framework on Carbon Risk Disclosure will also encourage reporting using the Protocol. This broad consensus should, over time, improve consistency and comparability between corporate greenhouse gas emissions reports.

However, agreeing a reporting protocol is just the start and, from an investment analysis perspective, the lack of consistency between companies on where they set their reporting boundaries is a particular concern. While both GRI and the WBCSD’s Greenhouse Gas

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<sup>19</sup> In our report on electricity utilities (Sullivan and Kozak (note 1)), we suggested that companies should provide at least five years worth of projections.

<sup>20</sup> Innovest (note 6), p.30

<sup>21</sup> Innovest (note 6), p.30

<sup>22</sup> Available at <http://www.ghgprotocol.org>

Protocol provide guidance on defining reporting boundaries, companies frequently do not explicitly state what is included or excluded from the scope of their report. For example, it is often not clear whether and how subsidiaries are treated for the purposes of reporting on emissions, and it is common for corporate responsibility reports to only consider a geographic subset of operations (for example, where companies provide detailed data on UK operations but only a cursory overview of performance in ex-UK operations). This issue of reporting boundaries was highlighted in the CDP3 report when Innovest commented: “When reviewing the emissions data, multiple complications arose due to the widely varying scope of company reporting. Emissions reported ranged from simply how much energy was used at company headquarters to a full accounting of direct, indirect and business travel-related emissions. ..[companies] provide few details regarding the boundaries of their emissions reporting”<sup>23</sup>.

Finally, quality assurance remains a problem. In our review of the corporate responsibility reports of twelve European electricity companies we noted: “Four of the twelve companies reported having their corporate responsibility or environmental reports verified by a third party, and one company stated its intentions to have its greenhouse gas data audited in the future. However, it is unclear how much attention was paid to the companies’ CO<sub>2</sub> emissions inventories in the verification process, as none of the verifications explicitly stated that the greenhouse gas emissions data published contained no material misstatements. The remaining companies (i.e. those that did not report having their reports verified by a third party) did not explain how they ensure the accuracy of their calculations”<sup>24</sup>. Of the three disclosure initiatives being discussed in this report, only CDP requests companies to submit reports to it. However CDP does not appear to check the quality of the reported data, noting (in relation to the 2005 Climate Leadership Index), that: “The analysis is based on self-reported non-verified responses”<sup>25</sup> and that: “Despite the fact that 54% of the FT500 disclosed their emissions data, only 30% could be accurately benchmarked year to year because of inconsistent data quality”<sup>26</sup>. Further, because CDP simply publishes the company responses on its websites, it does not provide an incentive for companies to ensure the quality of the reported data or to ensure the usefulness of the reported data for investors. CDP appears to recognise this weakness. In its 2005 report, CDP announced that, in the future, it would “...focus on improving the quality and quantity of responses from corporations and helping to establish sector metrics for emissions”<sup>27</sup>. In the CDP4 questionnaire, respondents were asked to explain how greenhouse gas emissions data had been audited and/or externally verified. While this not the same as CDP itself verifying the reported data, it does provide a signal to companies that such data needs to be properly audited and verified.

Apart from the issues around data quality, the climate change information provided by companies tends to be dispersed among several different reports (including CDP responses) and other documents (e.g. CSR or environmental reports, in some cases in Annual Reports and Accounts, other publications such as analyst presentations). This makes it difficult to get a complete picture of performance or to properly assess the investment implications of climate change. It is therefore important that the various disclosure initiatives clearly signal that the current approach of dispersing information through a range of other reports is not acceptable to investors.

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<sup>23</sup> Innovest (note 6), p.30

<sup>24</sup> Sullivan and Kozak (note 1), p. 9.

<sup>25</sup> Innovest (note 6), p.8.

<sup>26</sup> Innovest (note 6), p.30.

<sup>27</sup> Innovest (note 6), p.4.

### 3.3 The need for sector-specific guidance

One of the key conclusions from our analysis of electricity sector disclosures was that generic climate change-related questions will not produce all of the information required by investors to put the climate change risks and opportunities faced by companies into the overall business context. For example, in relation to the electricity industry, we noted that, in addition to information on greenhouse gas emissions, investors require information on operational aspects such as currently installed generating capacity on a country-by-country basis, current output (i.e. electricity generated) on a country-by-country basis, emissions factors for different fuel types, and planned changes in capacity (e.g. new investments, efficiency improvements, and mothballing and/or decommissioning of plants)<sup>28</sup>.

A related issue has been that open-ended questions tend to produce responses that are difficult to compare. We have found that the open-ended nature of many of the CDP questions means that it is essentially at the discretion of reporting companies to decide how they respond to the questions. While GRI has started to develop sector supplements, these do not specify the form in which data are to be reported. We believe that information on issues such as greenhouse gas emissions should be presented in a standard form across sectors, and that disclosure initiatives need to be much more prescriptive in this regard.

### 3.4 The problem of multiple initiatives

Companies are understandably frustrated by the range of investor-supported climate change disclosure standards, all of which seem to be requesting broadly the same information. There are two specific issues. The first is that, while the CDP and the proposed Global Framework on Carbon Risk Disclosure seem *prima facie* to be directed to the same end (i.e. specifying the information that investors require from companies), the two initiatives do not appear to be consistent in the information that they request from companies. The second is that the GRI – as a multi-stakeholder rather than an investor-specific initiative – is probably not the best means by which to generate the specific data required by investors on climate change. There is a very real risk that the multiplicity of initiatives will have the effect of lowering, rather than raising, the quality of corporate disclosure by creating confusion about the specific information investors require.

### 3.5 What is the role of investors?

Investors – through their support for CDP in particular – have signalled to companies that they regard reporting on climate change as important to their investment decisions. Despite this support, a significant number of major companies do not respond to the CDP questionnaires, just over half of the CDP respondents (54%) provide emissions data and some high impact sectors (aerospace and defence, oil and gas, industrials and surface transport) have particularly poor response rates.<sup>29</sup> Perhaps more importantly, few companies discuss climate change in their annual reports and accounts or subject climate change-related information to the same degree of auditing and verification rigour as they do for financial data.

It appears to be that many companies do not yet appreciate that a large and increasing number of investors believe that climate change is a material investment issue and,

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<sup>28</sup> Sullivan and Kozak (note 1).

<sup>29</sup> Innovest (note 6), p. iv.

therefore, want data that allows them to assess the implications for companies. One reason for this disconnect appears to be that many investors have not requested that information directly from the companies but, instead, have delegated the responsibility for gathering this information to CDP. The feedback we receive from companies is that while they are sometimes asked by shareholders about whether or not they respond to initiatives such as the CDP, they are rarely – if ever – challenged about the quality of the information that they provide. In addition, even if investors do request climate change-related data, companies do not see evidence of that data being taken into account in investment decisions.<sup>30</sup>

Our discussions with companies have revealed that direct engagement with investors, rather than through third parties such as CDP, is a more important influence on the information they decide to disclose and the actions they take. Hence, in order to send strong signals to companies, it is important that analysts and fund managers ask companies directly to provide relevant data in their annual reports and accounts (or in a report to accompany the annual report and accounts) and that they use – and are seen to use – the information that companies provide as a basis for analysing corporate performance in this area and for making investment decisions.

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<sup>30</sup> For more detailed discussions of companies' perceptions of 'SRI analysts' and the links between these analysts and 'mainstream analysts', see the chapters: R. Edmondson and A. Payne (2006), 'SRI Analysts: Is it Time to Bring them in from the Cold?', A. Wales (2006), 'Exerting Influence: Engagement or Best-in-Class?' and C. Tuppen (2006), 'Engaging with Investors: From Values to Value', in R. Sullivan and C. Mackenzie (eds.) (2006), *Responsible Investment* (Greenleaf Publishing, Sheffield, UK).

## 4. Conclusions and Recommendations

Investor disclosure initiatives have made an important contribution to encourage companies to improve their disclosure on climate change. Yet, individually and collectively, the major investor disclosure initiatives have not delivered the consistent and comprehensive reporting that would allow investors to make meaningful comparisons between companies and to properly analyse the financial implications of climate change.

The analysis in this report and our experience with analysing and using corporate climate change disclosures has led us to four recommendations.

The first recommendation is that investors should send a collective signal that they see climate change as a priority issue for companies, that they expect companies to provide appropriate disclosures on the risks and opportunities presented by climate change and that companies should have strategies to reduce greenhouse gas emissions and to adapt to the physical impact of climate change. This goes beyond the scope of disclosure initiatives such as CDP and the proposed Global Framework for Climate Risk Disclosure, to focus on the actions, as opposed to the disclosures, that are expected of companies.

The second is that investors need to communicate directly with companies, through regular meetings and discussions, that they see climate change as an investment-relevant issue and wish to see much better disclosure in this regard. While CDP has played an important role in stimulating reporting, we are of the view that delegating responsibility to a third party to gather this information perpetuates the message that investors are really not interested in the issue of climate change. Ultimately, given the critical importance of climate change, investors should seek this information directly from companies, in a similar manner to other financial information. As part of this process, investors should explain to companies how they integrate climate change into their investment analysis.

The third recommendation is that investors – both individually and collectively – need to be clear regarding the kind of data that they want to be reported. In relation to the data reported, companies should:

- Provide forward-looking information, including: (a) at least five years of projections on greenhouse gas emissions; (b) an assessment of the financial implications resulting from the physical impact of climate change; and (c) an assessment of the financial implications of policy and regulation directed at reducing greenhouse gas emissions or mitigating the physical impact of climate change.
- Follow the WBCSD's Greenhouse Gas Protocol when preparing their reports on greenhouse gas emissions.
- Set reporting boundaries that properly capture all greenhouse gas emissions from their operations and activities. Specifically, companies should: (a) break down their greenhouse gas emissions by source or activity and on a country-by-country basis;<sup>31</sup> (b) provide information on direct and indirect greenhouse gas emissions; and (c) for subsidiaries, provide the total greenhouse gas emissions from the subsidiary and the proportion of emissions that are being claimed by the company.
- Assure their climate change-related data in a similar manner as their corporate financial information.

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<sup>31</sup> For example, in our report on electricity utilities, we suggested that emissions should be reported on a country-by-country basis and by fuel type within each country (Sullivan and Kozak (note 1)).

- Lastly, companies need to ensure that their climate change disclosures are what investors want. This requires that companies report information in line with investors' expectations as outlined above and properly integrate a discussion of the relevance of climate change to their business in their annual reports and accounts.

Clearly, this set of recommendations has implications for collective initiatives such as the CDP. Going forwards, collaborative initiatives potentially have an important role to play, but that role is likely to be substantially different from their role to date. Collaborative initiatives are likely to be important in the following ways:

- Developing sector-specific guidance for climate change disclosures, encompassing both climate change-specific disclosures as well as broader contextual information necessary to put this information into context. The sector specific guidance should specify the format (e.g. reporting tables) in which such data are to be reported (and provide model answers) and should specify the level of assurance required for such data. We are of the view that this standardisation activity should be conducted by a single organisation or a group of investors, to reduce the confusion and duplication that surround the current multiplicity of initiatives.
- Providing comparative overviews of: (a) the number of companies issuing climate change related reports; (b) the quality of these reports, in terms of the quality of the reported data, the compliance with investor disclosure specifications and the ease of use of these data for investment analysis; and (c) the quality of corporate strategies (e.g. are companies setting emissions reduction targets and how challenging are these, the provisioning for climate change-related liabilities).

In conclusion, investors have had some five years' experience of voluntary efforts to encourage companies to provide better information on climate change-related issues. There has been a significant increase in the number of companies that provide some information but company disclosures still fall some way short of what is required by investors to properly analyse the financial implications of climate change for their investments. Our view is that there is a need to substantially rethink the manner in which investors encourage companies to improve their disclosures on climate change, and this report sets out our views on how this work may proceed. Ultimately, the challenge for investors – individually and collectively – is to improve corporate climate change reporting to the point where such reporting provides real value for investors.

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