CDSB Climate Disclosure Standards Board

Response to Concept Release: Business and Financial Disclosure Required by Regulation S-K

To whom it may concern,

We welcome the opportunity to respond to your consultation (file no. S7-06-16) on the proposed changes to the *Business and Financial Disclosures Required by Regulation S-K*.

We welcome the Commission's efforts in considering improving sustainability and public policy issues disclosure requirements for the benefit of investors, the public and issuers alike.

The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.

We do this by offering companies a **framework for reporting environmental information**[1] with the same rigor as financial information. The CDSB Framework for reporting environmental information sets out an approach for reporting environmental information and natural capital in mainstream reports, such as the annual report, 10-K filing or integrated report. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

The Climate Disclosure Standards Board consists of:

- World Economic Forum
- The Climate Registry
- International Emissions Trading Association
- Climate Group
- Ceres
- World Resources Institute
- CDP (Formerly Carbon Disclosure Project)
- World Business Council on Sustainable Development

CDSB's technical work is led by its Technical Working Group, formed of representatives of the major accounting firms and their professional bodies, professional advisors and academics.

Recognizing that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

We have coordinated our response with our Board Member, CDP, to demonstrate our complete alignment on the issues raised in the non-financial reporting sphere. CDP hosts the global CDSB Secretariat on behalf of the Board.

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[1] Climate Disclosure Standards Board (2015), CDSB Framework for reporting environmental information & natural capital. Available at http://cdsb.net/Framework.

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Our responses to the consultation questions are set out in Appendix I below. Please note that our comments focus on reporting environmental information only, which is the focus of our work. Some of the main points we wish to emphasize are:

- There are a wide range of sustainability issues that are important to informed voting and investment decisions and we propose eight factors which are required to ensure that reporting on such issues results in decision-useful information;
- We contend that certain sustainability and public policy issues **are** material across sectors according to **current** definitions of materiality and that they should be disclosed under S-K Regulations as **currently** drafted (although they are currently not understood as such);
- We do not see why the introduction of sustainability reporting provisions should present any new or different issues for the SEC, as the provisions would also serve the purpose of protecting investors and the public interest and facilitating fair, orderly and efficient capital markets;
- We suggest that the Commission considers adopting or adapting material only from those frameworks and materials that focus on mainstream reporting, including the International Integrated Reporting Framework, the CDSB Framework and SASB's emerging standards and/or that provide sufficient structure to support mainstream reporting through the existing approach offered by CDP.
- Although the implementation of sustainability reporting in 10-K filings will incur some additional costs to companies, reporting on sustainability-related matters is consistent with other requirements and are in line with the prescriptions of certain accounting and reporting standards. Given that it is financially material and has the potential to affect the bottom line, information on a company's sustainability-related performance should be reported alongside financial information. In addition, a significant portion of issuers already report such information on a voluntary basis, for whom the cost of compliance may be further reduced.

Please do not hesitate to contact us if we can be of further assistance

With best regards,

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Appendix I. CDSB responses to consultation questions

216: Are there specific sustainability or public policy issues [that] are important to informed voting and investment decisions? If so, what are they?

We believe that there are specific sustainability issues that are important to informed voting and investment decisions. Although the type of information that is important to voting and investment decisions varies by the type of investor, we have outlined some issues below that we have found to be important to investors.

Sector-specific issues and related metrics

CDP research and disclosure results have suggested metrics related to sustainability issues for some sectors that we believe should be considered as part of a balanced investment thesis. Examples of relevant metrics are as follows:

Sector	Suggested metric	Example scenario analysis
Transport	Fleet emissions for auto manufacturers (g of CO_2 per km)	Fleet emissions regulations in the EU and US in 2015 and 2021 and analysis of broader business models looking at electric and hybrid vehicles
Utilities	Emissions intensity (tons of CO_2 per MWh by fuel type)	Implications of increasing renewable power in the grid and which companies are best placed to take advantage; next phase of the EU ETS.
Consumer goods	Exposure to CO_2 emissions from deforestation within food supply chains through palm oil, soy, packaging and cattle products	Effects of increasing biodiesel use on palm oil and soy prices; effects of droughts in the US and Latin America on companies' ability to continue business; Potential EU legislation to ban non-certified palm oil and the impacts on European food companies
Oil and gas	Emissions per barrel of oil equivalent by type of product (e.g. oil, shale, tar sands)	Sensitivity analysis to various oil prices; regulatory barriers to high-cost, high-emissions extraction; impact of cheap gas on oil production; analysis of ROI of current capex and other potential business models
Materials	Emissions per ton of production for the cement industry	Viability of Carbon Capture and Storage technology; next phase of the EU ETS
Metals and mining	Emissions per ton of production by product type	Analysis of trends for extraction cost versus market price of output and implications for long-term business models
Land intensive sectors (mining, construction, agriculture, forestry)	Land use change (hectares of habitat lost or transformed) and associated liabilities and contingent liabilities	Habitat and species related offset legal requirements are being strengthened throughout the world, including in several US states (e.g. for wetlands). IFC Performance Standards also require offsets for critical biodiversity values; clear separate disclosure of offset requirements and associated financial liabilities is warranted is such cases; in jurisdictions where offset requirements are still be discussed (e.g. several European countries, South Africa, etc.), land use change disclosures should be made and linked to contingent liabilities

Scenario analysis

Some sustainability-related metrics do not directly impact the current financial performance of a company, but represent qualitative indicators of emerging risk, physical or regulatory, such as the potential for carbon tax or cap-and-trade regulation. Similar issues exist in other sustainability-related topics, including in water and drivers of deforestation in particular.

If we were to adopt specific disclosure requirements involving sustainability or public policy issues, how could our rules elicit meaningful disclosure on such issues?

We suggest the Commission adheres to the following eight factors when developing its requirements to ensure that reporting elicits meaningful disclosures:

1. A clear **objective** for the reporting activity so that reporting organizations know why they are reporting (such as the objective of financial reporting prescribed by FASB[2]);
2. A **requirement** to provide information set by an appropriate authority (such as the requirement to deliver financial statements in forms 10-k at Item 8);
3. Clear **content** elements so that the reporting organization knows what to report (see answer to question 217);
4. A **standard** for complying with the content requirements and for setting suitable criteria/principles for conducting assurance activities so that the reporting organization knows how to report (such as the qualitative characteristics of decision-useful financial information prescribed by FASB);
5. A **system** for supplying, storing and analyzing information so that reporting organizations know where to report information and users know where to find it (such as EDGAR);
6. An **assurance** process for ensuring that assertions comply with the standard used to prepare them and that they do not include any material misstatements;
7. A **review** process so that users of information can feed back views to preparers and standard setters about whether they are getting what they need; and
8. Flexibility and system capacity to include qualitative elements that are deemed appropriate by the disclosing entity.

How could we create a disclosure framework that would be flexible enough to address such issues as they evolve over time?

In the same way that FASB supports the SEC's requirements on the delivery of financial statements and COSO supports the SEC's requirements on internal controls, we suggest that the SEC should prescribe the requirement for its registrants (or a subset thereof) to deliver sustainability information, but rely on other bodies including CDP and CDSB and the International Integrated Reporting Framework[3], to prepare content and standards to elicit information according to SEC specified criteria. By referencing the work of these bodies, the Commission can develop high-level requirements and ensure that it refers to content requirements that are kept up to date as this field develops.

Alternatively, what additional Commission or staff guidance, if any, would be necessary to elicit meaningful disclosure on such issues?

See above, as well as our answer to question 219.

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[2] Financial Accounting Standards Board 2006, Conceptual framework for financial reporting: objective of financial reporting and qualitative characteristics of decision-useful financial reporting information. Available at: http://www.fasb.org/pv_conceptual_framework.pdf

[3] International Integrated Reporting Council (2103) The International <IR> Framework. Available at http://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

217. Would line item requirements for disclosure about sustainability or public policy issues cause registrants to disclose information that is not material to investors? Would these disclosures obscure information that is important to an understanding of a registrant's business and financial condition? Why or why not?

General comments

Sustainability information is important to an understanding of a registrant's business and financial condition.

We accept that if materiality refers to information that is specific to the reporting entity's performance and condition based on past events and known liabilities, then sustainability and public policy matters might not always be deemed material to reporting organizations or reasonable investors according to current SEC and FASB definitions (the latter which is currently under review).

However, as Keith F Higgins said in a speech[4] about disclosure in October 2014, "..although the reasonable investor is a useful standard for liability purposes, our disclosure system does not specify that companies provide **only** material information. In fact, the Commission has rulemaking authority to require the disclosure of information "necessary to carry out the provisions" of the federal securities laws. The Commission also can prescribe rules "as...necessary or appropriate in the public interest or for the protection of investors." And, there are certainly discrete line item requirements — such as the number of employees or the number of shares repurchased on a monthly basis irrespective of the dollar amount — that individually may not be material to investment or voting decisions, but over the years the Commission has determined are relevant disclosures for investors."

We contend that certain sustainability and public policy issues **are** material at entity-specific level according to **current** definitions of materiality and that they should be disclosed under S-K Regulations as **currently** drafted. However, even where sustainability and public policy issues are not material at entity-specific level, we contend that line item requirements for disclosure will enable investors to anticipate and prepare for future effects of those issues as noted below.

We also note that given its importance to financial performance, the distinction between sustainability and financial information is not always helpful. Sustainability information is appropriate in Commission filings because it is financially material. Sustainability information also helps make sense of the context in which businesses operate and of their performance, neither of which cannot be completely understood by looking at financial statements alone.

International public policy pronouncements on climate change (such as the COP 21 Paris Agreement) and sustainable development goals (SDGs) define international targets and confirm that the private sector will be required to contribute to those targets. The targets are clear but the speed and timing of required behavioral change is uncertain. Research on the transition to a low carbon economy favors a slow and gradual transition towards the desired outcomes rather than a so-called "hard landing"[5]. We contend that similar principles apply to other sustainability issues that are global and present systemic risk implications. Global, systemic risks by definition do not always manifest themselves at entity-specific level, but can nevertheless cause shocks to companies, financial institutions and markets through direct impacts or gradual contagion through markets.

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[4] Keith F. Higgins, Director of Corporate Finance, US SEC, 2014, Shaping Company Disclosure: Remarks before the George A. Lett Business Law Conference. Available at: https://www.sec.gov/News/Speech/Detail/Speech/1370543104412.

[5] Reports of the Advisory Scientific Committee No 6 February 2016: Too late, too sudden: Transition to a low carbon economy and systemic risk. A report of the group of the European Systemic Risk Board Advisory Scientific Committee. Available at: https://www.esrb.europa.eu/pub/pdf/asc/Reports_ASC_6_1602.pdf

Accordingly, in our view the SEC should issue directions on the circumstances in which companies should report on sustainability issues under existing S-K Regulations where one or more of those issues represents a material risk to the reporting entity.

Materiality of sustainability disclosures to investors

The central point at the heart of the SEC's question number 217 is whether and to what extent the SEC considers disclosures on sustainability issues to be "necessary or appropriate in the public interest or for the protection of investors." We believe that the SEC must conclude that it is in the public interest and for the protection of investors to require line item disclosures about sustainability issues. As far as climate change is concerned, we contend that the work of CDP, the Climate Disclosure Standards Board and the Financial Stability Board's Task Force on Climate-related Financial Disclosures should be used as the basis for deciding what those line items should be. Please see our response to question 219 for more detail on this matter.

As evidence of the materiality of climate change-related information in particular, we would like to refer the Commission to the signatories to the Statement on fiduciary duty & climate change disclosure[6] who have stated that climate change "has important implications for economic activity and therefore corporate performance… For this reason, [they] have decided to produce and make use of such information on a common basis…[They] believe shareholders and plan beneficiaries have an inherent interest in the completeness and comparability of climate-related information available in annual and other mainstream corporate reports, because the economic effects of climate change are tangible and have implications for the relative prospects of firms, industries and investment portfolios." The Statement has been signed by 153 companies (of which 76 are listed on a US Stock Exchange), with a combined market capitalization of US$ 2.8 trillion. 32 institutional investors, asset managers and other investment organizations with a combined US$7.2 trillion of assets under management also support this statement.

Further evidence to exemplify the materiality of reporting sustainability information is the fact that to date in 2016, 175 shareholder resolutions[7] were filed concerning sustainability matters.

Additional comments

As a separate matter, we encourage the SEC to consider introducing line item disclosure requirements for sustainability and public policy issues, particularly where international public pronouncements have been made to define policy targets[8]. In particular, we encourage the SEC to require companies to conduct stress tests against those targets and to disclose the outcomes of those stress tests as a separately identifiable series of line items. Investors would therefore be able to distinguish information about stress testing against systemic risk and public targets (which are material to the achievement of international goals in aggregate) from disclosures about material risks specific to the goals, strategy and business model of the reporting entity. Whether they regard systemic risk as material to their investees or not, investors would at least be able to distinguish disclosures relating to those risks, thereby minimizing the possibility of information they regard as material from being obscured.

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[6] 200+ organisations, 2016. Statement on fiduciary duty & climate change disclosure. Available at
[7] Ceres, 2016. *Shareholder Resolutions*. Available at: http://www.ceres.org/investor-network/resolutions#!/subject=&year=2016&company=&filer=§or=&status=&memo=&all=
[8] For example, the United States of America has ratified the Paris Agreement on April 22 2016. This is an agreement that, among others, states that its signatories will "…strengthen the global response to the threat of climate change…by…Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels…". The Paris Agreement is available at: http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf.

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Given the sound and generally accepted state of climate science and the USA's ratification of the Paris Agreement[9], it is prudent for corporate disclosures to take this into account when reporting on such matters. For this reason, we strongly recommend that climate change-related line item requirements are framed in the context of the issuer's ability to operate within the carbon budget developed by the Intergovernmental Panel on Climate Change. Specifically, we recommend that the Commission frames line items relating to emissions reductions in line with science[10].

Given the international and systemic nature of sustainability risks, we would encourage the SEC to refer to, or adopt existing or emerging standards and practices for sensitivity analysis against sustainability targets and associated disclosure. For example, the SEC could encourage its registrants to adopt recommendations eventually made by the Financial Stability Board's industry-led Taskforce on Climate-related Financial Disclosures (TCFD).

We would also like to highlight a misalignment in the arguments submitted by a respondent commentator cited on page 207 of the concept release to oppose mandatory disclosure of sustainability risks. The commentator described reporting sustainability in mainstream filings as addressing "societal issues unrelated to investor protection" and stated that "some groups are seeking to use federal securities laws to address various societal concerns, without giving effect to the bedrock of the materiality principle". This same respondent commentator states on its website that "Access to reliable, affordable energy undergirds U.S. national and economic security, and a clean, healthy environment is essential for economic prosperity now and for future generations."[11] If such matters are "essential for economic prosperity", then we contend that it is consistent with protecting investors and the public to require material sustainability disclosures in mainstream filings. As such, we would suggest that the Commission treats these comments with due consideration.

218. Some registrants already provide information about ESG matters in sustainability or corporate social responsibility reports or on their websites. Corporate sustainability reports may also be available in databases aggregating such reports. Why do some registrants choose to provide sustainability information outside of their Commission filings? Is the information provided on company websites sufficient to address investor needs? What are the advantages and disadvantages of registrants providing such disclosure on their websites? How important to investors is integrated reporting as opposed to separate financial and sustainability reporting? If we permitted registrants to use information on their websites to satisfy any ESG disclosure requirement, how would this affect the comparability and consistency of the disclosure?

If information is material to investors, it should be reported in Commission filings.

We agree that there are currently multiple channels through which organizations can choose to report on ESG matters in reports that might variously be described as integrated, connected, supplementary and complementary, or through dedicated reporting channels that aggregate responses, in particular, CDP's Online Reporting System or through corporate websites. We attribute the variety of "placement behavior" (i.e.: where information is reported) to the following factors:

- Lack of standard guidance on the placement of information;
- Lack of agreement on the circumstances in which ESG risks and impacts are material for mainstream reporting purposes;

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[9] ibid.
10 A methodology for developing science-based targets that is in use today is available here: http://sciencebasedtargets.org/wp-content/uploads/2015/09/SBTManual_PubComDraft_22Sep15.pdf.
11 Business Roundtable. Energy & Environment Committee. Available at: http://businessroundtable.org/issues/energy-environment/committee

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- Uncoordinated decisions on where to report information being made by staff in multiple corporate disciplines including communications, marketing, health and safety, compliance, governance and finance.

The problems encountered by users fall into four main categories:

1. Information can be hard to find;
2. Even where the placement of information is clear, it is not structured (except through the CDP system) or labeled in a consistent way;
3. Information produced by different corporate departments within the same company and/or delivered through different reporting channels is not always consistent, thereby impairing the reliability of information; and
4. Typically, website information only gives a snapshot of the current year, thus affecting comparability.

Why do some registrants choose to provide sustainability information outside of their Commission filings?

Some registrants provide sustainability information outside of their Commission filings for various reasons, including to inform a wider stakeholder group, to aid competitive advantage or differentiation, or to help build trust. Reporting outside the Commission filings is also seen as a way to avoid the perceived legal obstacles associated with them.

The general public has a broad interest in sustainability and this constituency does not, as a rule, read Commission filings. Therefore, companies use numerous channels to report to their customers and other concerned parties.

In addition, in that there is no guidance on where to place information about sustainability in a 10-K report, or mandate to do so, companies exclude it, notwithstanding that the law as currently drafted warrants inclusion of sustainability information at items 1A (Risk Factors) and 7 (MD&A).

Is the information provided on company websites sufficient to address investor needs?

We think in principle that information provided on company websites could be sufficient to address investor needs. However, we do not think that allowing or recommending disclosure on company websites addresses any of the issues that have prompted the SEC's consultation. In particular, sustainability reporting either is or is not "necessary or appropriate in the public interest or for the protection of investors." If it is, then the information should be reported in the 10-K in a structured format in satisfaction of SEC requirements. Current information that is reported through company websites is often not produced in a reliable and consistent manner to a degree that influences investor decision making or allocation of capital. Reporting information in Commission filings means that the level of rigor attached to this information by the reporting company and the user is often more.

In order to manage the volume of reporting, the SEC could make use of cross-referencing protocols to direct users of information to websites for more detail on sustainability-related disclosures made in SEC filings.

What are the advantages and disadvantages of registrants providing such disclosure on their websites? If we permitted registrants to use information on their websites to satisfy any ESG disclosure requirement, how would this affect the comparability and consistency of the disclosure?

While there is no oversight, regulatory or otherwise, of websites, there is risk to the public if website statements are deemed to satisfy SEC disclosure requirements. Allowing registrants to report such

disclosure on their website may diminish its importance and therefore the degree of internal scrutiny with which it was collected and reported. Companies could disclose material sustainability issues in their 10-K filings, which they could then also report on their website, where they can provide more detail to support their disclosures.

That said, the question that needs to be addressed is about what structure, format, characterization and presentation of information needs to be established to make sustainability disclosures relevant, understandable, clear and consistent **wherever** they are placed. Sustainability information does not fail to address investor needs simply because of variation in **where** it is reported, but also, and more importantly because of the variation in **how** it is reported. FASB prescribes principles and rules about how financial information should be determined, prepared and presented. Similarly, COSO is widely used for the preparation and presentation of risk information. This means that wherever financial or risk information is reported – on forms 10-K **or** on websites, they follow the principles and rules established by FASB and COSO. We contend that unless and until a similar recognized approach is established for sustainability information, it will continue to lack consistency and structure wherever it is reported.

The CDP questionnaires offer a structured approach for reporting information on climate change, water and forests and the CDSB Framework for reporting environmental information offers a complementary approach for reporting a sub-set of that information specifically through mainstream channels, such as the form 10-K, according to principles established for financial, risk, management commentary and governance reporting. Companies provide information via the CDP Online Reporting System in response to a direct request from investors. The CDP system was created specifically because investors were not receiving sufficient useful information via statutory filings or through other channels.

How important to investors is integrated reporting as opposed to separate financial and sustainability reporting?

The answer to this question depends on how investors interpret the meaning of "a comprehensive overview of the company's business and financial condition"[12]. The integrated reporting movement is a response to changing market, government and societal expectations about how a company's business and financial condition is to be understood and particularly, the conclusion that it cannot be assessed based on financial statements alone.

Those changing expectations inform the goals that businesses should be setting and the criteria that should be applied to identify good and poor corporate performance. Integrated reporting is based on the premise that performance must be determined based on information about **all** of the resources and relationships (otherwise known as "capitals") on which a business depends to execute its strategy and further its business model.

Therefore, if investors and the SEC agree that a business' condition can be affected (positively or negatively) by access to, and use of **all** forms of capital, if follows that integrated reporting is crucial to an understanding of business performance.

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[12] U.S. Securities and Exchange Commission, 2009. *Fast Answers – Form 10-K. Available at* https://www.sec.gov/answers/form10k.htm.

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219. In an effort to coordinate ESG disclosures, several organizations have published or are working on sustainability reporting frameworks. Currently, some registrants use these frameworks and provide voluntary ESG disclosures. If we propose line-item disclosure requirements on sustainability or public policy issues, which, if any, of these frameworks should we consider in developing any additional disclosure requirements?

Given that corporate sustainability reporting practices have been developing for over a decade and that companies already have established processes and procedures based on existing ESG and sustainability reporting frameworks, we agree that the SEC should take those established practices, procedures and processes into account when proposing line-item disclosure requirements.

As question 219 suggests, companies with a global footprint are invited to use a multitude of sustainability reporting frameworks and approaches[13]. The fragmentation of approaches causes confusion and can impair the full potential[14] of sustainability reporting. We think that the SEC could therefore play a role in bringing some order to the sustainability reporting landscape by making clear recommendations that reflect the highest common denominator of existing practice.

ESG and sustainability reporting frameworks serve different purposes and the information they elicit is designed for different audiences. Given the SEC's role and remit, we suggest that they consider only those frameworks and materials that:

1. Focus on mainstream reporting, that is the package of information that includes audited financial statements, management commentary, risk and governance disclosures prepared for compliance purposes. Frameworks that seek to elicit information primarily for investors through mainstream reporting channels include the International Integrated Reporting Framework, the CDSB Framework and SASB's emerging standards. The approaches of these three frameworks to many reporting items are already fairly well aligned – see for example paragraph 53 of CDSB's Discussion Paper on Organizational Boundary Setting[15]; and
2. Provide sufficient structure to support mainstream reporting. As noted in our answer to question 223, we contend that any slow uptake of sustainability reporting is partly attributable to a perceived lack of resources to support such reporting within the disclosing entity, itself deriving from lack of mandate to disclose through the SEC. A structured approach that helps companies to understand where and how to report is already offered by CDP.

We also invite the SEC to explain how any requirements they introduce will relate to existing reporting provisions. For example, the US Environmental Protection Agency already requires greenhouse gas reporting[16], which may be a component of sustainability reporting – even a required line-item. In this case, the Commission could provide guidance on whether and how the facility level information used for reporting to the EPA could be aggregated to provide consolidated GHG emissions, re-used or cross-referenced to the EPA disclosure to satisfy potential SEC requirements.

Voluntary reporting mechanisms, such as the CDP investor requests are used by 60% of global market capitalization and the CDSB Framework for reporting environmental information form an essential constituent of the information that is provided to investors. Taking these existing requirements into consideration and adopting line-item disclosures that are already in use by the

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[13] Climate Disclosure Standards Board (2012) The Case for Consistency in Corporate Climate Change-Related Reporting. Available online at http://www.cdsb.net/sites/cdsbnet/files/the-case-for-consistency-in-climate-change-related-reporting.pdf

[14] Association of Chartered Certified Accountants & Climate Disclosure Standards Board (2016) Mapping the sustainability reporting landscape: lost in the right direction. Available online at http://cdsb.cdnf.net/sites/default/files/acca_cdsb_mapping_the_sustainability_landscape_lost_in_the_right_direction.pdf

[15] Climate Disclosure Standards Board, 2014. *Proposals for boundary setting in mainstream reports.* Available at: http://www.cdsb.net/sites/cdsbnet/files/proposals_for_mainstream_report_boundary_setting.pdf.

[16] US Environmental Protection Agency, Greenhouse Gas Reporting Program. Available online at https://www.epa.gov/ghgreporting

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market is key to establishing an efficient disclosure system that takes into account the data already reported by companies and used by investors, especially in view of the rapid evolution of the concerns giving rise to the SEC guidance.

220. Are there sustainability or public policy issues for which line-item disclosure requirements would be consistent with the Commission's rulemaking authority and our mission to protect investors, maintain fair, orderly and efficient markets and facilitate capital formation, as described in Section III.A.1 of this release? If so, how could we address the evolving nature of such issues and keep our disclosure requirements current?

As the SEC's disclosure rules are intended to facilitate fair, orderly and efficient capital markets, we consider it to be consistent with their authority and mission to address climate change and other sustainability issues that threaten markets and financial stability. As Section III.A.1 of the consultation document states, the SEC has already introduced provisions on corporate responsibility, accountability, executive compensation, governance and other specialized disclosures, including some that are not necessarily financial in nature. We do not see why the introduction of sustainability reporting provisions should present any new or different issues for the SEC as the provisions would also serve the purpose of protecting investors and the public interest and facilitating fair, orderly and efficient capital markets. We think that the SEC's deliberations on how to proceed would be advanced by clearly setting out the objective of the Commission's sustainability reporting requirements. We suggest that some of the thinking reflected in the Financial Stability Board's (FSB) literature on the creation of the Task Force on Climate Related Financial Disclosures might help inform the objective of sustainability reporting, for example, that it is designed to help financial market participants to understand their sustainability-related risks and understand how better to manage those risks.

Assuming that the objective above is broadly appropriate, we suggest that the SEC could address the evolving nature of sustainability issues by working with other organizations (as the SEC does with COSO and FASB) that could manage the content of and approach to sustainability reporting as it evolves (see also question 216) and/or by issuing interpretations of existing provisions in line with current practice[17]. In particular, guidance on whether, how and to what extent **existing** items 503(c) and 303 should be interpreted to apply to sustainability issues would help registrants. We also recommend that the SEC adopts relevant international authoritative guidance and practices as they emerge, such as the FSB's recommendations on climate-related financial disclosure when they are issued in December 2015, SASB's standards and sustainability performance indicators prescribed in CDP's annual questionnaires and the CDSB Framework for reporting environmental information.

221. What, if any, challenges would registrants face in preparing and providing this information? What would be the additional costs of complying with sustainability or public policy line-item disclosure requirements, including the administrative and compliance costs of preparing and disseminating disclosures, beyond the costs associated with current levels of disclosure? Please quantify costs and expected changes in costs where possible.

Challenges

Fragmented regulatory landscape

To address the challenge of fragmented local, regional and national approaches, we recommend that the Commission seeks alignment with other reporting provisions in use globally. A knowledge platform[18] being developed by the World Business Council for Sustainable Development in partnership with CDSB and EcoDesk, which will be publicly available as a beta version in December

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[17] Along the lines of the 2007 interpretive guidance on climate change and the SEC Division of Corporation Finance "Manual of Publicly Available Telephone Interpretations"
[18] World Business Council (2016), *Reporting Exchange*. Available at http://www.reportingexchange.com

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2016. The platform, known as the Reporting Exchange, tracks and records international sustainability reporting provisions (both voluntary and mandatory) and could be used by the SEC to develop requirements that are as consistent as possible with existing practice and therefore less costly for reporting companies to implement.

Cost of compliance

The Commission may find it useful to look at cost-benefit analyses conducted for the implementation of similar requirements in other jurisdictions:

- Cost-benefit analysis for EU Non-Financial Reporting Directive: http://ec.europa.eu/finance/accounting/docs/non-financial-reporting/com_2013_207-study_en.pdf
- Impact assessment for UK mandatory greenhouse gas reporting under the UK Companies Act: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/82354/20120620-ghg-consult-final-ia.pdf
- Impact assessment of the transposition of the EU Non-Financial Reporting Directive into UK legislation: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506640/BIS-16-35-IA-non-financial-reporting-directive-consultation-impact-assessment.pdf
- Submission of the Australian Senate Inquiry on Carbon Risk Disclosure, which include http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Carbon_Risk_Disclosure/Submissions

222. If we propose line-item disclosure requirements that require disclosure about sustainability or public policy issues, should we scale the disclosure requirements for SRCs or some other category of registrant? Similarly, should we exempt SRCs or some other category of issuer from any such requirements?

The types of companies within scope of the recommendations and the requirements that apply to them should be linked directly to the objectives that the information is designed to support and the outcomes that the SEC seeks to achieve from the use of information.

Since all companies have the potential to affect or be affected by sustainability issues, we are reluctant to suggest that any particular type of company should be exempt from the scope of sustainability reporting requirements. However, we agree that the requirements should be proportionate in the context of the objective of reporting **and** that efforts to build reporting capacity should focus initially on larger companies with the resources to develop and refine reporting processes and practices and those companies with high emissions or other high environmental risks.

The costs associated with the first year or data collection and reporting may be a significant barrier to some Small Reporting Companies (SRCs). But, providing information related to sustainability and public policy matters is important nonetheless to:

A) Inform and protect the company's investors and to provide historic data for investor use; and
B) Prepare the SRC for more detailed reporting requirements as it grows.

We therefore recommend that the Commission implements a staggered or phased approach, whereby only larger companies are in scope for the first 3 – 5 years from commencement of the sustainability reporting requirements. This would give the SEC the opportunity to assess which reporting processes and practices are most effective and it would allow SRCs to learn through the experience of larger companies. To keep costs reasonable, we recommend that the Commission develops a proportionally smaller subset of requirements for SRCs to apply up to five years after the commencement of requirements for larger companies.

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It is important that the Commission sets a roadmap in order to prepare SRCs for this.

223. In 2010, the Commission published an interpretive release to assist registrants in applying existing disclosure requirements to climate change matters. As part of the Disclosure Effectiveness Initiative, we received a number of comment letters suggesting that current climate change-related disclosures are insufficient. Are existing disclosure requirements adequate to elicit the information that would permit investors to evaluate material climate change risk? Why or why not? If not, what additional disclosure requirements or guidance would be appropriate to elicit that information?"

Having worked with multiple stakeholders over a period of 9 years to develop an international framework for reporting climate change and environmental information, we are acutely aware of the need for climate change to be treated as a specialist area of environmental reporting and activity. We believe that the Commission's "Guidance Regarding Disclosure related to Climate Change" is comprehensive and clear. It clarifies the existing provisions in SK Regulations that are capable of applying to climate change (in particular items 101, 103, 303 and 503), it explains the way in which climate change disclosures might be triggered, how information may be prepared (by reference to international accords if appropriate) and what type of content should be considered for reporting.

We therefore do not think that poor compliance is attributable to inadequacies in the guidance itself. We contend that poor compliance is attributable to other reasons, primarily focused on implementation of the SEC's guidance, including:

1. Inadequate internal corporate infrastructure to link investor needs and concerns with climate reporting specifically and sustainability reporting more generally;
2. Lack of explanation about how climate and sustainability reporting fit into the mainstream reporting model;
3. In the absence of reporting infrastructure that provides standards, definitions of terms, measurement criteria, guidance on the application of professional judgment, clarity on assurance expectations etc. specifically in the context of mainstream reporting, we think that companies will continue to struggle to report on sustainability through the mainstream reporting model. Furthermore, we think it will be difficult for the SEC to enforce reporting. Regulators in other jurisdictions also struggle to provide effective monitoring, oversight and enforcement; a lack of reporting infrastructure would make this task even more difficult ; and
4. Lack of fit between sustainability reporting and mainstream model
   - Although there is evidence of more forward-looking approaches, (e.g.: IAS 19 and IFRS 7&9), the mainstream reporting model (comprising financial statements, governance disclosures and management commentary) has been characterized as backward looking to results for a defined reporting period. By contrast, sustainability reporting requires forward-looking information and assessment of future risks. Furthermore, as far as the mainstream reporting model is concerned, matters are material if they are based on past events and known liabilities and if they affect the reporting entity specifically. By contrast, sustainability issues are most often material at systemic level. Thirdly, mainstream reporting normally focuses on entities, operations, activities and transactions within the reporting organization's control or ownership. By contrast, sustainability reporting often extends along the whole value chain, including consideration of societal and environmental impacts of corporate activity. We think that companies find these contrasts hard to resolve and that this impedes reporting. However, these difficulties are inherent in the nature of environmental risk and do not necessarily result from a failure of the guidance.
5. An *interpretive release* or *Commission guidance* may not be considered a mandatory requirement.

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333. Should we require registrants to provide additional disclosures in a structured format? If so, which disclosures? For example, are there categories of information in Parts I and II of Form 10-K or in Form 10-Q that investors would want to receive as structured data?

If the SEC goes ahead with the implementation of sustainability related disclosure in 10-K filings, we recommend that it requires registrants to provide this in the same XBRL format as other financial data in order to aid the comparability and consistency of the reported information.

We refer the Commission to the Climate Change Reporting Taxonomy[19], which provides climate-related reporting elements in XBRL in line with the CDP Climate Change Information Request and the CDSB Framework. A sample report is also available on request.

340. In requiring structured data, the Commission has sought to make disclosure easier for investors to access, analyze and compare across reporting periods, registrants, and industries. Are there other technologies that could make disclosure easier for investors to access, analyze and compare? If so, how should we incorporate these technologies into our disclosure requirements?

We are not aware of other reporting languages that offer significant benefits over XBRL.

In response to the criticism of XBRL's usability for analysis in the Concept Release, we would like to clarify that eXtensible Business Reporting Language is a format to transmit information in a structured and standardized way, while keeping the context that is associated with each data point. In return, the software used for analysis is able to translate the data into the format it requires. XBRL itself is not a format for analysis, its value lies within structuring data in a standardized way and to retain contextual information, ultimately to enable a multitude of ways of using the reported information.

[19] Climate Disclosure Standards Board & CDP, 2014. Climate Change Reporting Taxonomy. Available at http://www.cdsb.net/xbrl.

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