



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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Dear Sam Balch

DRAFT GUIDANCE ON HOW TO MEASURE AND REPORT ON YOUR GREENHOUSE GAS EMISSIONS

The Institute of Chartered Accountants in England and Wales (ICAEW) is pleased to respond to the request from Defra for comments on *Draft guidance on how to measure and report your greenhouse gas emissions*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely,

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ICAEW REP 82/09

DRAFT GUIDANCE ON HOW TO MEASURE AND REPORT ON YOUR GREENHOUSE GAS EMISSIONS

Memorandum of comment submitted in August 2009 by The Institute of Chartered Accountants in England and Wales, in response to Defra's consultation paper Draft guidance on how to measure and report your greenhouse gas emissions published in June 2009.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the ICAEW) welcome the opportunity to comment on the consultation paper *Draft guidance on how to measure and report your greenhouse gas emissions* published by ICAEW.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 165 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

4. We support the ambitions of the Guidance: to produce guidance on reporting greenhouse gas emissions relevant to both large and small companies across a range of sectors.
5. We are unclear about the objectives of the Guidance. In particular we should welcome clarity around whether the Guidance is designed to drive a reduction of carbon emissions and about who is the intended user of the information generated by this reporting process. The inclusions of such objectives will give companies a clear idea why it is important to report their carbon emissions.
6. In its current form the Guidance lacks advice on how large, global organisations should gather the relevant data. It also significantly underestimates the time and costs involved in designing an adequate reporting system and managing its ongoing operation.
7. There seems to us to be a structural issue in the Guidance in that it appears designed for small and medium-sized enterprises ('SMEs') without a great deal of knowledge of greenhouse emissions reporting. We wonder however under what circumstances they would wish or need to report publicly their emissions. Whilst this Guidance relates to voluntary reporting, it is within the terms of the Climate Change Act that the Secretary of State will consider mandatory reporting. We believe it is important to state here that we do not believe that small and medium sized enterprises should be captured by this. It would be administratively burdensome, with costs outweighing any benefits and we question whether it would drive emissions reductions in any significant way.
8. There seems to be an underlying assumption in the Guidance that there is a link between the reporting and the reduction of carbon emissions. We question whether this is true and would welcome explanation about how emissions reporting drives carbon reductions.
9. We feel the Guidance lacks context in its current form. There is also little explanation of how it fits with other legislation or voluntary guidance which is important for those organisations already reporting their emissions. The guidance needs to have regard to guidance in other

parts of the world to avoid the introduction of widely different requirements. This guidance would put an unwelcome burden on multinational groups if radically different.

10. The draft leaves open how and when the information should be reported and whether it should be subject to external verification.
11. The proposed timetable of assessing the impact on measuring emissions in 2010 does not seem realistic. To conclude whether carbon reporting has a positive effect on carbon emission reduction will need a longer assessment period.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Does the guidance provide enough detail? Are there any issues on which you would welcome further guidance?

12. Reporting should include a management commentary on how reporting emissions links to company strategy. It should explain the organisation's efforts to manage and reduce carbon emissions as well as describing the climate change risks and opportunities associated with it. We believe this would not only help users, but also make the reporting organisations think about the benefits and risks of being a more sustainable business.
13. More explanation is needed about how this guidance fits in with other legislation. Some organisations are already required to report under the EU Emissions Trading Scheme and will shortly be required under the Carbon Reduction Commitment. It would be useful if the carbon factors were aligned to the legislation currently in force. Any variation would add considerably to the cost and time burden associated with the guidance.
14. Global organisations and those with complex ownership models need more clarity around Defra's position on the double counting of carbon emissions.
15. What is considered 'best practice' in reporting on carbon emissions has to date emerged from innovative companies who are committed to the agenda and copied by companies inspired by their example. Defining 'best practice' in this guidance could limit the ingenuity of those leading companies and is therefore not advised.

Q2: Do you agree with all the recommendations? It would be helpful if you could comment on any recommendations with which you disagree (Guidance: page 76).

16. Scope 3 emissions will for many organisations be the most important source of carbon emissions. It can be hugely complicated and expensive to measure scope 3 emissions accurately and in this context we appreciate that companies are offered a choice about whether to report these emissions or not. However, it seems that the current guidance may serve as a disincentive to perform a diligent analysis. Organisations who omit their scope 3 emissions will report less and could be easily mistaken as being more carbon efficient.

Q3: Do you agree with the criteria given to determine which scope 3 emissions are significant? If you disagree, please suggest additional or alternative criteria (Guidance: page 55).

17. We agree that the reporting should be based on principles. However there are certain situations where deciding what to do will be difficult. For instance, a certain set of scope 3 emissions may be important to the business, but data gathering for those emissions may be very costly. In this case it is not clear what should be prioritised by the business.
18. As noted above, we believe that this guidance may not be adopted while companies are offered a choice about whether to adhere to it or not.

Q4: Your comments are sought on the emissions data that we recommend you report? (Guidance: page 23-25)

19. Further clarification is needed about how this fits in with the reporting under the EU Emissions Trading Scheme. Specifically, whether Certified Emission Reduction (CER) units bought under the ETS, retired or not, should be reported under this guidance.
20. Guidelines on how to present the data in the form of a “primary statement” would be helpful. Also further guidance on providing explanation of reporting policies and choices made, supporting notes and the extent of supporting management commentary.
21. Guidance is needed around the extent to which ‘estimated’ data will be accepted. Data can be extrapolated from measured data to provide an estimate where it is not cost efficient to measure all emissions. However, if data is extrapolated too far, reported data becomes unreliable and comparison of data will be ineffective.
22. To determine which entities within a group are to be included in the reporting requirements, the level of ‘control’ the owner has over a company should be judged and be consistent with the way they are dealt with by accounting standards. If they are inconsistent it will be difficult for investment companies to collate the necessary data and there will be a significant cost implication.

Q5: What is your view on the supporting explanations that it is suggested organisations should include in their report? (Guidance: page 25-29)

23. We believe that asking all participant organisations to give supporting explanations, should be one of DEFRA’s standard recommendations. Without these explanations the usefulness of the reported data is significantly impaired.
24. Including a segmental analysis of emissions by source would be helpful to better understand make-up and performance by area/origin. Also a clearer view on the impact of acquisitions and divestments on baseline would be helpful.
25. The supporting explanations are equivalent to the accounting policies disclosed by companies in the annual accounts. To make this clear we suggest the title is changed from ‘supporting explanations’ and replaced with ‘reporting policies’.

Q6: Your comments are sought on the external emission reductions activities that we have identified and the 'good quality' criteria that these reductions activities should meet (Guidance: Page 58-65)

26. Far too much emphasis and explanation is placed on carbon offsetting in this section which sends out a message to offset rather than reduce.

Q7: Your comments are sought on how organisations should account for renewable electricity that they generate. (Guidance: Page 58)

27. The debate around whether companies who produce their own renewable electricity should be able to reduce their overall reportable emissions is far from being resolved. Any guidance on this issue should encourage the right behaviour- a reduction in carbon emissions.

Q8: We welcome your comments on the attached impact assessment for this policy? Do you have any estimates for how long it would take you to follow the guidance? We welcome information on costs and benefits for both policy options.

28. Costs involved in carbon reporting could significantly vary depending on industry and international reach of the organisation. We feel this is largely ignored in the impact assessment. The estimates given in the proposal are at the very low end of a spectrum of possible costs. We suggest that field testing is undertaken to assess the true impact of the guidance on businesses. This will be particularly important if the guidance is to become mandatory in the future.

29. Global organisations will find it time consuming and costly to implement adequate data collection systems to meet the recommendations of this guidance. This is particularly in jurisdictions that are less advanced in terms of measuring carbon emissions. Organisations (such as Private Equity) that have small ownership interests in many different types of businesses globally, may struggle to assert sufficient influence to implement this type of measurement process.

30. The timetable states that the impact on measuring emissions will be assessed next year in 2010. However, considering the efforts needed to implement a reporting system properly, we believe that it will take at least five years until its impact can be realistically understood.

Q9: Please provide any general comments on the guidance, especially any issues where you would welcome further explanation.

31. The objectives of the draft are unclear and we are unsure whether there is sufficient incentive to encourage organisations to report their carbon emissions on a voluntary basis. The link between reporting and reduction of carbon emissions also needs to be explained in more detail in the guidance.

32. Clarification is needed around how and when an organisation should report its carbon emission, which organisations are within the scope of the guidance and who the intended users of the information produced at the end might be.

33. Advice on how to measure and reduce carbon emissions should be included for those companies that are not currently reporting carbon emission data. Examples supported by case studies would be useful, as would information on the range and type of measurement frameworks currently available on the market.

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