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Measuring and reporting of greenhouse gas emissions by UK companies: a consultation on options

May 2011

Llywodraeth Cynulliad Cymru
Welsh Assembly Government

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Part 1: Introduction

1. Purpose of this consultation

The purpose of this consultation is to seek views on whether or not regulations should be introduced to make it mandatory for some UK companies to report on their greenhouse gas emissions within the directors' report to meet our climate change objectives.

2. Consultation Process

Geographical scope: This consultation covers the UK.

Impact assessment: An impact assessment accompanies this consultation.

Duration of the consultation: Eight weeks

Body responsible: Department for Environment, Food and Rural Affairs

3. How to contribute

The closing date for this consultation is 5th July 2011. Responses should be sent to the following email address:

Ghgreporting@defra.gsi.gov.uk

Or by post to:

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Additional ways to become involved: There will be a limited number of stakeholder events. If you wish to receive information about these events please contact us on the telephone number or email address above.

Further information is available on the Defra website.

Please contact us if you wish for these documents to be made available in a different format (large print etc.) and we will endeavour to accommodate your request.

4. Confidentiality

In line with Defra's policy of openness, at the end of the consultation period copies of the responses we receive may be published in a summary of the responses to this consultation. **If you do not consent to this, you must clearly request that your response be treated as confidential**. Any confidentiality disclaimer generated by your IT system in email responses will not be treated as such a request. Respondents should also be aware that there may be circumstances in which Defra will be required to communicate information to third parties on request, in order to comply with its obligations under the Freedom of Information Act 2000.

5. Compliance with the Code of Practice on Consultation

This consultation complies with HM Government's Code of Practice on Consultation.

6. Background

Measuring and reporting of greenhouse (GHG) emissions by organisations is seen as a useful tool in helping to reduce emissions and achieve energy and other resource efficiencies. Defra and the Department of Energy and Climate Change (DECC) produced guidance for companies wishing to measure and report on their emissions[1] which was published on 1 October 2009 and met the requirement in section 83 of the Climate Change Act 2008.

Publication of the UK guidance followed extensive consultation. The UK Guidance is based on the GHG Protocol, the internationally recognised standard for the corporate accounting and reporting of GHG emissions, and it also aligns with the International Organisation for Standardisation (ISO) 14064-1.

The Climate Change Act (section 84) also required the Government to review the contribution that GHG emissions reporting makes to the achievement of the Government's climate change objectives and to lay a report before Parliament. The report was laid on 30 November 2010 and can be viewed at: *http://archive.defra.gov.uk/environment/business/reporting/pdf/corporate-reporting101130.pdf*. This report outlines how reporting of GHG emissions by companies plays a part in helping them to manage their emissions.

Section 85 of the Climate Change Act requires the Government to make regulations, under the Companies Act 2006, by 6 April 2012 requiring the directors' report of a company to include information about GHG emissions as is specified in regulations, or to lay a report before Parliament explaining why no such regulations have been made.

No decision has yet been taken about whether to introduce regulations and the Government would like to gather views from businesses and other interested parties prior to taking that decision. Reducing regulation is a key priority for the Government and so Ministers will consider the potential impacts on business of regulatory as well as non-regulatory options.

[1] *http://www.defra.gov.uk/publications/files/pb13309-ghg-guidance-0909011.pdf*

Separately the Department for Business, Innovation and Skills (BIS) consulted in 2010 on companies' narrative reporting including their coverage of social and environmental matters. While that was a broader consultation looking at narrative reporting in the round, we need to ensure that our approach to reporting on greenhouse gas emissions takes account of the Government's policy approach to the corporate reporting framework as a whole. In its Plan for Growth, published in March, the Government announced its intention to simplify the narrative reporting framework for quoted companies to make it clearer and more focussed.BIS plans to consult on detailed proposals for the narrative reporting framework in early summer. If we introduce new regulations as a result of this consultation, our approach will be aligned with the proposals for a new reporting framework.

This consultation aims to inform Ministers' decision on whether to introduce regulations or to lay a report before Parliament on this issue.

This consultation sets out four options to promote more widespread and consistent reporting by companies of GHG emissions: a voluntary approach and three mandatory approaches. Your views are sought on these different options.

Your views are also sought on what any regulations should cover (these issues are considered in Section 13). We would urge you to consider including your views on these questions even if you are not in favour of mandatory reporting.

Part II Options for Consultation: The Four Options

An impact assessment accompanies this consultation document and provides further details, where information is available, on the costs and benefits of the different options outlined here. Information on the wider benefits of measuring and reporting emissions is included in the recent Defra report to Parliament[2].

7. Option 1: Enhanced voluntary reporting

There are already a number of companies reporting voluntarily on their GHG emissions. Research by the Environment Agency found that 62% of FTSE all-share companies refer to quantified figures on climate change or energy use within their business review[3]. This is supported by the provision of company guidance by Defra/DECC, and a growing number of sector level initiatives to promote reporting and independent reporting programmes such as the Carbon Disclosure Project (CDP). Companies that report their emissions experience a range of benefits as highlighted by research by PwC/CDP[4] for Defra. These include brand building, improved stakeholder and investor relations and cost savings from measuring, reporting and then managing emissions.

Some options for enhancing the current voluntary reporting scheme are:

a) Increasing awareness of the benefits of reporting, the Defra/DECC guidance available to support businesses, and existing schemes to provide brand recognition through increased publicity and increased outreach to businesses.

[2] Defra (2010), Corporate reporting and emissions reductions: review of the contribution of reporting to GHG emissions reductions. The full report is available at: *http://archive.defra.gov.uk/environment/business/reporting/pdf/corporate-reporting101130.pdf*.

[3] EA (2011) Environmental Disclosures. The third major review of environmental reporting in the statutory annual reports and annual accounts of the FTSE all-share companies.

[4] Defra (2010), Corporate reporting and emissions reductions: review of the contribution of reporting to GHG emissions reductions. The full report is available at: *http://archive.defra.gov.uk/environment/business/reporting/pdf/corporate-reporting101130.pdf*.

b) Increase support for and collaboration with CDP as well as with other Non-Governmental Organisations (NGOs) to increase demand for and use of company reports by investors and other interested parties.

c) Increased work to develop sector specific voluntary agreements – to target emissions intensive sectors and help them to identify cost reductions and meet their own environmental objectives.

d) Bilateral voluntary agreements between Government and companies by size bands including targets for reporting take-up and deadlines to review voluntary agreement performance.

8. Regulatory options

Section 85 of the Climate Change Act specifies that, if regulations are to be made to require reporting, the regulations should be under section 416 (4) of the Companies Act 2006. Regulations under section 416(4) apply to UK incorporated companies who are required to prepare a directors' report (as part of a company's annual report and accounts). The following regulatory options look at different groups of companies that could be required to report on their greenhouse gas emissions.

The Companies Act provides for the creation of companies as either public or private companies. Not all of the provisions of the Act apply to both types of company, and, in addition, distinctions on the application of provisions are drawn dependent on size of company (i.e. large, medium or small, as defined in the Act).

There are already a number of policies in place which require companies in the UK to collect data on their GHG emissions. These include the EU Emissions Trading System (EU ETS), the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) and Climate Change Agreements. In line with the Government's reducing regulation priorities, the Government recognises the need, if it were to regulate, to avoid unnecessary reporting and administrative burdens. The Government is already committed to simplifying the CRC in the light of experience since that scheme began in April 2010. It will take these matters as well as the need to simplify the climate change policy landscape carefully into account in reaching a decision on the way forward. We would particularly welcome your views on how emissions reporting policy can help avoid imposing unnecessary burdens on companies.

9. Option 2: Mandate under Companies Act for all Quoted companies

This option would require reporting of GHG emissions in the director's report from all quoted companies.[5] The scope of what would be required to be reported is discussed in Section14.

The option of mandatory reporting for all UK quoted companies is proposed because the provision of information on greenhouse gas emissions by these companies is likely to be of most interest to investors and potential investors.

Statistics for the London Stock Exchange for 30 September 2010 indicate that around 1100 companies would be covered by this option. Quoted companies are required under the Companies Act 2006, to include information about environmental matters (including the impact of the company's business on the environment) in their business review to the extent necessary for an understanding of the development, performance or position of the company's business. It is not proposed that any new requirements would form part of the business review provisions.

This option, of course, would not cover large private companies, i.e. companies which are not public.

10. Option 3: Mandate under Companies Act for all large companies

This option would require all large companies[6] - public and private - to report on their GHG emissions in their director's report. The Companies Act defines company size using measures of employment, gross assets and turnover. To be classified as a certain size the company must meet the threshold for that size band on at least two measures.

[5] As defined in Section 385 of the Companies Act 2006.

[6] As defined in Sections 382, 383, 465, 466 of the Companies Act 2006.

Requiring reporting from all large companies would ensure that the UK companies which are likely to be the most significant emitters of GHGs are covered by any potential regulation.

Statistics suggest that there are between 17,000 and 31,000 large companies in the UK[7]. This will include large private companies not captured by option 2.

11. Option 4: Mandate under Companies Act for all companies whose UK electricity consumption exceeds a threshold

This option would require all companies whose UK consumption of electricity exceeded a minimum threshold of half-hourly metered electricity in one year to report on their GHG emissions in their directors' report. It would not include companies with low UK electricity consumption but high emissions from other activities, such as transport, process emissions or high emissions from company's activities overseas. This option aims to cover the largest energy users. It would apply to organisations where:

a. they have at least one half-hourly meter (HHM) settled on the half-hourly market; and

b. their electricity through all their half hourly meters in the UK in a specified year amounted to or exceeded a specified quantity;

It is therefore proposed that this would be linked to the qualification criteria in the CRC Energy Efficiency Scheme, which is a mandatory UK-wide scheme which targets emissions from large public and private sector organisations. Under the CRC, organisations who are supplied with more than 6,000 MWh of qualifying electricity must register as participants. Under CRC companies that are part of a group[8] are required to determine whether they reach the threshold as a group and report on their energy consumption as part of the group. (Government is currently considering how to simplify CRC).

[7] *http://www.bis.gov.uk/files/file51198.pdf*

[8] The scheme draws on the Company Act 2006 definitions of parent and subsidiary to define the relationships within the group, specifically using the definition of 'group undertaking' set out in section 1161(5) of the Act.

It is proposed that this option would capture companies consuming more than 6,000 MWh of qualifying electricity per annum, i.e. under this option the qualification criteria would directly replicate the provisions under the CRC scheme. These companies would then be required to report, in accordance either with the CRC reporting criteria or the Defra/DECC guidance. This would include not only the emissions they currently report for CRC but also other emissions not covered by CRC but required by the proposed reporting regulation.

There are approximately 4,000 companies who consume more than the proposed threshold of 6000MWh of electricity each year. If the energy threshold was to be lowered – it could potentially cover up to around 15,000 companies.

Unlike the two previous options, one of the disadvantages of this approach is that it does not follow existing Companies Act definitions of companies by type i.e. private or public or size as outlined in Sections 382, 383 465, 466 of the Companies Act 2006. This option would depart from that approach by introducing separate criteria for companies to be covered by these reporting requirements within company law.

12. Questions on the four options

- Do you support Option 1(enhanced voluntary reporting)? If you do, please explain why.
- If you do support voluntary reporting, do you think there needs to be additional guidance, publicity or other support? There are various ideas (outlined in Option 1) for increasing the number of companies reporting on a non-regulatory basis, have you any comments on these? Have you any other proposals to increase the number of companies reporting and the quality and consistency of reports on a non-regulatory basis?
- Should corporate reporting of GHG emissions be made mandatory for some companies? If so, please explain.
- If mandatory reporting is introduced, which would be your preferred Option: 2, 3 or 4? It would be helpful if you could explain your reasons. Have you any suggestions for improving any of the regulatory options?

- Do you have any comments on the economic analysis in the impact assessment? In particular, do you think the costs and benefits for the different options are reasonable? Can you provide any further information which would help in estimating costs and benefits for the different options?

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13. Requirements under Mandatory Reporting

If the decision is taken to make corporate reporting of GHG emissions mandatory, the regulations will need to set out what is expected of companies in terms of measurement, calculation and reporting of emissions. This section of the consultation seeks your views on a number of issues that are relevant if the decision is taken to introduce mandatory reporting.

14. Organisational boundaries

The regulations will require that companies choose and apply a single, consistent, approach to setting their organisational boundary and that the company should specify whether it is using a financial control, operational control or equity share approach[9], or alternatively according to the CRC group structure in relation to Option 4[10].

It is proposed that companies would report on the emissions within their chosen organisational boundary. For example, if a company had financial control over its overseas operations, and it used a financial control approach to setting its boundary, it is expected that it would report on both its UK and non-UK emissions.

The regulations would need to provide for cases where companies were unable to estimate their emissions due to problems with data capture, etc. The regulations would require that companies should be transparent in how they are measuring or calculating or estimating their emissions and in what they report, i.e. if they are

[9] Part 3, page 10 of the "Guidance on how to measure and report your greenhouse gas emissions' provides further information about organisational boundaries.

[10] Sections 1161 and 1162 of the Companies Act

unable to report on emissions from all their operations due to lack of information then this should be clearly stated in their report.

Questions on organisational boundaries

- Do you agree that a company should specify which approach it is using to set its organisational boundary?
- Do you agree that a company should (where possible) report on all their emissions within the chosen organisational boundary, including those that occur in their operations overseas? If you don't agree, can you explain which emissions you think a company should report?
- Do you agree that, if it isn't possible for a company to report on emissions within their organisational boundary (because of data problems, etc), then a company should clearly state the extent to which it has been able to report?

15. Gases to be reported

The Climate Change Act 2008 describes GHG emissions as the six gases covered by the Kyoto Protocol: carbon dioxide, methane, hydrofluorocarbons, nitrous oxide, perfluorocarbons, and sulphur hexafluoride. The Defra/DECC guidance, which was published in 2009, recommends that companies should measure and report on these six GHGs. The emission factors that Defra publish should also enable companies to report on their GHG emissions from the six Kyoto gases. It is proposed that the regulations would specify that companies should measure or calculate emissions from the six GHGs covered by the Kyoto Protocol.

Question on gases to be reported

- Do you agree that companies should be required to measure and calculate emissions from the six GHGs covered by the Kyoto Protocol?

16. Activities to be measured and reported

The current Defra/DECC guidance recommends that organisations report, as a minimum, their scope 1 and scope 2 emissions and encourages the reporting of significant scope 3 emissions. Categorising emissions-releasing activities into three scopes is the widely accepted approach, and is used internationally in the GHG Protocol.

- Scope 1 (Direct emissions): Activities owned or controlled by an organisation that release emissions straight into the atmosphere. Examples of Scope 1 emissions include emissions from combustion in owned or controlled boilers, furnaces, vehicles and emissions from chemical production in owned or controlled process equipment[11].
- Scope 2 (Indirect emissions from energy**)**: Emissions being released into the atmosphere associated with an organisation's consumption of purchased electricity, heat, steam and cooling. These are indirect emissions that are a consequence of the organisation's activity but which occur at sources which the organisation does not own or control[12].
- Scope 3 (Other indirect emissions): Emissions which are a consequence of the organisation's actions, which occur at sources which the organisation does not own or control and which are not classed as scope 2 emissions. Examples of scope 3 emissions are business travel by means not owned or controlled by the organisation such as rail travel, flights, emissions from activities which your company has out-sourced or contracted to others and emissions from the extraction and production of purchased materials and fuels.

Scope 1 and 2 emissions are usually relatively simple to calculate using existing activity data such as fuel bills. Scope 3 emissions are generally significantly more

[11] The EU ETS, CCAs and CRC include certain scope 1 emissions, primarily fuels for combustion and certain process emissions. They do not cover Scope 1 emissions from owned transport or fugitive emissions, (e.g. from air conditioning and refrigeration leaks.) The EU ETS and CRC only cover CO_2 emissions. A company in one or more of these schemes would therefore be required under the regulations to measure and report on those scope 1 emissions which are not covered by these schemes.

[12] The CRC and CCAs cover most scope 2 emissions. The EU ETS does however not cover scope 2 emissions. The EU ETS and CRC only cover CO_2 emissions. A company in one or more of the CRC, CCA and EU ETS schemes would be required under the regulations to measure and report on any scope 2 emissions which are not covered by these schemes.

complex to calculate in many instances as they may involve engagement with others in the supply chain. However, there are some types of scope 3 emissions (such as emissions from business travel) which can be less complex to calculate than others, although they are still likely to require data collection from a number of sources. In addition, for some organisations, especially those that have relatively low scope 1 and 2 emissions, understanding the level of scope 3 emissions is essential to properly understanding the environmental impact of the business. Measuring scope 3 emissions gives organisations and investors a more complete understanding including their potential exposure to climate change risks.

It is proposed that potential mandatory reporting should cover all scope 1 and scope 2 emissions, but we would like to hear your views on which scopes should be required to be reported if mandatory reporting was introduced.

<u>Question on scopes</u>

- Do you agree that companies should be required to measure, or calculate, and report on all their scope 1 and scope 2 emissions? If not, which emissions do you think a company should measure, calculate and report and why?
- Do you think that companies should be required to measure and report on any of their scope 3 emissions (in addition to scope 1 and 2)? If so, can you specify which ones you think should be required?

17. Emission Factors

Defra/DECC[13] provide annually updated emission factors so that companies can convert activity data, such as amount of fuel used, into emissions data. The Defra/DECC emission factor spreadsheets convert data by source into each GHG and also provide a total in carbon dioxide equivalent (CO_2e). Under the guidance, emission totals for scope 1, 2 and 3 should all be reported in carbon dioxide equivalents using the Defra/DECC emission factors for UK emissions. The

[13] http://archive.defra.gov.uk/environment/business/reporting/pdf/101006-guidelines-ghg-conversion-factors-method-paper.pdf

Defra/DECC guidance recommends that where an organisation is using standard emission factors, they should use the Defra/DECC emission factors for UK emissions, and that if they require other emission factors, they should refer to the emission factors in the GHG Protocol calculation tools.

It is proposed that regulations would require companies to use the Defra/DECC emission factors, or, where that is not possible, to specify the emission factors they use, to calculate their emissions. It is also proposed that companies would be required to report total GHG emissions in tonnes of CO_2e.

18. What a company should report

In line with the current UK Guidance it is proposed that, if regulations are introduced, they should specify the details on GHG emissions that a company is expected to report in the directors' report. It is proposed that the regulation would require companies to state an annual account of emissions in carbon dioxide equivalent, broken down into scopes 1 and scope 2 (and scope 3 where this is provided).

The regulations could also require the reporting of an intensity ratio (see part 8, page 22 of the UK Guidance for further information on how and why a company should calculate an intensity ratio). Other information that might also be required could include emissions data for a base year (part 9, page 26 of the UK Guidance, on how to track emissions over time explains further about base years).

Companies would need to be clear when reporting their emissions whether they were being reported in compliance with the proposed regulation or with other regulatory schemes. As set out in the current Defra/DECC guidance, where companies are required to report some emissions for other regulatory schemes (such as the EU Emission Trading System, a Climate Change Agreement or the CRC scheme) such data could be used for the purposes of meeting the requirements of a mandatory reporting regulation. However, a company would need to be transparent in explaining when it had used data from other schemes.

Questions on what companies should report

- Do you agree that companies should specify in their directors' reports, the company's total annual amount of GHG emissions in CO_2e broken down by direct emissions (scope 1) and indirect energy (scope 2)?
- Do you agree that companies should specify an intensity ratio?
- Should companies specify a base year when they report their annual emissions?
- Is there any other information which you think a company should report?

19. Assurance or verification

The extent to which GHG emissions report should be verified and/or assured is a key issue. Any regulation in this area should seek to minimise the costs on companies, but also be fair and uphold the integrity of the data disclosed.

The Companies Act requires all companies' annual accounts for a financial year to be audited in accordance with the provisions set out in the Act, unless the company is exempt from audit either by virtue of qualifying as small or by being dormant. Even then, there exist certain circumstances in which a small company must have its accounts audited.

Currently, there is no statutory requirement to have environmental information audited. However any material environmental disclosure within annual financial statements should be included in the scope of the financial audit[14]. An auditor must also state in his report on the company's annual accounts whether information in the Directors' report is consistent with that found in those financial statements. Where a company publishes a separate environmental or sustainability report, an auditor is not required to read it although they may consider it as contributing to a knowledge

[14] ICAEW & Environment Agency (2009) Turning questions into answers: Environmental Issues and Annual Financial Reporting

of the business[15]. Under the Companies Act, directors must ensure that the information in their Directors' Report complies with the statutory requirements.

Verification of data and models is an integral part of promoting quality of disclosures. Assurance is a process of gathering evidence to express a conclusion about the outcome of an evaluation, this can include verification of the accuracy or completeness of the data. Independent assurance provides a level of confidence in reports and the use of the data for decision making. An assurance statement should include a clear declaration of independence, competence, scope, standards used, criteria, level of assurance and conclusions.

In financial accounting there are two levels of assurance[16] which reflect the level of work effort and the confidence in the data and supporting claims in a report:

- 'limited assurance': is phrased negatively stating that nothing has come to the assurer's attention that indicates material misstatements in the report.
- 'reasonable assurance': is a higher level of assurance and indicates that the depth of investigation is sufficient to reduce the risk of misstatements and is phrased positively, stating that the reported data accurately reflects performance.

Absolute assurance is not possible given the constraints of time verses the costs and benefits of doing so. In general, auditors are likely to be nervous of endorsing emission reports which are not based on sound accounting principles and closely aligned with financial information[17].

There are two internationally recognised standards for assurance of sustainability reports: the IAASB's ISAE3000[18] and AccountAbility's AA1000AS[19]. These two

[15] ICAEW & Environment Agency (2009) Turning questions into answers: Environmental Issues and Annual Financial Reporting
[16] CorporateRegister.com (2009) Corporate Register Reporting Awards 08: Global Winners and Reporting Trends, www.corporateregister.com
[17] It is only possible to audit historical factual information which can be compared to independent data - it is not possible to audit forward-looking statements or judgements about the company.
[18] International Audit and Assurance Standards Board: 'Assurance engagements other than audits or reviews of historical financial information'. This is a standard which provides guidance (basic principles and essential procedures) for professional accountants on how to conduct non-financial assurance.

standards are ideally used together as they complement one another[20]. A good assurance statement should include reference to the criteria or standards that the report has been assured against, for example the ISO 14064-3 standard or the criteria in the GHG Protocol or the Defra / DECC Guidance. Companies may select the data sources which have been verified or specify the parts of their reports to be assured to a limited or reasonable level, for example all scope 1 emissions and issues[21], and this should be made clear in the assurance statement.

The cost of obtaining verification depends on the type sought. For a company which uses internal verification, the costs are likely to be much lower than a company who employs a third party (e.g. auditing professional) to carry out reasonable assurance on their full sustainability report. Internal costs are likely to be limited to staff time and resources, whereas third party assurance can be very expensive; firstly from installing auditable systems for data collection and collation and secondly for employing a third party, the cost of which will depend on the size and complexity of both the company and its emissions report.

Conversely there are risks to businesses of not obtaining verification of their emissions reports. Verification statements are a statement of confidence in the information reported and unreliable data may lead to charges of 'greenwash'.

We are seeking your views on whether, if reporting is made mandatory, companies should be obliged to seek some kind of assurance or verification on their emission report.

Possible options could include:

a. no requirement on companies to either verify or seek assurance of the emissions data in the Directors reports;

b. companies are required to seek internal verification of their emission report. Companies should demonstrate that they

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[19] AccountAbility is the Institute of Social and Ethical AccountAbility. The AA1000AS is a free, open source set of principles which addresses sustainability and CSR aspects of reports. Under the AA1000AS's 'high level of assurance' is equivalent to 'reasonable assurance' and the 'moderate assurance' is equivalent to 'limited assurance'.

[20] Both require that the assurer performs the appropriate work and that the work performed is adequately described in the statement.

[21] Carbon Smart (2010) Just off the starting blocks: benchmarking sustainability and carbon assurance in the FTSE350, *www.carbonsmart.co.uk*

have a clear and transparent quality control process in place ideally meeting a recognised standard.

c. Companies are required to have data verified and reports assured to a certain standard, e.g. limited or reasonable assurance using the ISAE3000 or the AA1000AS, or to any assurance standard on greenhouse gas emissions information subsequently developed. This would lead to a larger cost to businesses from a mandatory reporting scheme.

Questions on assurance and verification

- If reporting is made mandatory, should companies be obliged to seek some kind of assurance or verification on their emission report? If not, could you explain your thinking.
- Is internal verification of greenhouse gas emissions sufficient, or should external third party assurance be sought? If the latter, should it be limited or reasonable?

20. Mandatory Reporting – Offences/Penalties

If corporate reporting of GHG emissions is made mandatory, it would be done under section 416(4) of the Companies Act 2006 ("the Act") which gives the Secretary of State power to make regulations as to other matters that must be disclosed in a directors' report. Mandatory corporate reporting of GHG emissions, therefore, would be subject to the same regime of monitoring and offences as applies to the other contents of directors' reports.

The Financial Reporting Review Panel (FRRP) is authorised under the Act to monitor annual reports and accounts of public and large private companies for compliance with the law. Where there is, or may be, a question of non-compliance, the Panel can ask directors to explain apparent departures. If it is not satisfied by the explanations the Panel can apply to the court for an order requiring directors to revise the relevant report or accounts for the matter at issue. In practice, however, the Panel aims to persuade directors to adopt more appropriate accounting or reporting in the future and may accept other remedial action. This may include correction in the next set of accounts.

Failure to comply with the directors' report requirements of the Companies Act 2006 is an offence under section 419 (3) of the Companies Act[22].

[22] *http://www.legislation.gov.uk/ukpga/2006/46/section/419*

Part III Summary of Consultation Questions

21. Questions on the four options

1. Do you support Option 1(enhanced voluntary reporting)?
2. There are various ideas (outlined in Option 1) for increasing the number of companies reporting on a non-regulatory basis, which do you prefer? Have you any other proposals to increase the number of companies reporting and the quality and consistency of reports on a non-regulatory basis?
3. Should corporate reporting of GHG emissions be made mandatory for some companies? If so, please explain.
4. If mandatory reporting is introduced, which would be your preferred Option: 2, 3 or 4? It would be helpful if you could explain your reason. Have you any suggestions for improving any of the regulatory options?
5. Do you have any comments on the economic analysis in the impact assessment? In particular, do you think the costs and benefits for the different options are reasonable? Can you provide any further information which would help in estimating costs and benefits for the different options?

22. Questions on the requirements of mandatory reporting, if introduced

6. Do you agree that a company should specify which approach it is using to set its organisational boundary?
7. Do you agree that a company should (where possible), report on all their emissions within the chosen organisational boundary, including those that occur in their operations overseas? If you don’t agree, can you explain which emissions you think a company should report?
8. Do you agree that, if it isn’t possible for a company to report on all emissions within their organisational boundary (because of data problems, etc), then a company should clearly state the extent to which it has been able to report?
9. Do you agree that companies should be required to measure and calculate emissions from the six GHGs covered by the Kyoto Protocol?

10. Do you agree that companies should be required to measure, or calculate, and report on all their scope 1 and scope 2 emissions? If not, which emissions do you think a company should measure, calculate and report and why?

11. Do you think that companies should be required to measure and report on any of their scope 3 emissions (in addition to scope 1 and 2)? If so, can you specify which ones you think should be required?

12. Do you agree that companies should specify in their directors' reports, the company's total annual amount of GHG emissions in CO_2e broken down by direct emissions (scope 1) and indirect energy (scope 2)?

13. Do you agree that companies should specify an intensity ratio?

14. Should companies specify a base year when they report their annual emissions?

15. Is there any other information which you think a company should report?

16. If reporting is made mandatory, should companies be obliged to seek some kind of assurance or verification on their emission report? If not, could you explain your thinking?

17. Is internal verification of greenhouse gas emissions sufficient, or should external third party assurance be sought? If the latter, should it be limited or reasonable?

Annex A – Additional Questions on Costs and Benefits

The Impact Assessment – which accompanies this consultation document - measures benefits and costs related to measuring and reporting the six Kyoto GHG emissions[23] related to Scope 1[24] and Scope 2[25] emissions. We would welcome your help in improving the impact assessment through getting more information on the costs and benefits associated with the different options. First there are some general questions seeking your views on the current impact assessment, followed by more detailed questions on your business.

In answering the questions, please concentrate on the costs and benefits associated with collating information centrally and reporting publicly, rather than on the costs and benefits of measuring energy use in the first place, for example using smart meters. Any data provided, if used in subsequent analysis, will be reported in aggregate and not attributed to individual companies without consent.

Please answer as many questions as you can.

Costs and Benefits outlined in the Impact Assessment

1) Do the monetised costs outlined on page 20 of the Impact Assessment seem reasonable? Do you have any further information to add to this?

2) Do the non-monetised costs outlined on pages 20 to 22 of the Impact Assessment seem reasonable? Can you provide cost information on any of the costs outlined?

3) Do the assumptions on monetised benefits on pages 23 to 25 seem reasonable? Can you provide any information on benefits?

4) Do the non-monetised benefits outlined on pages 25 to 26 seem reasonable? Are you able to provide information on any of the above?

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[23] The list of the 6 Kyoto GHG can be found here: Carbon dioxide (CO_2); Methane (CH_4); Nitrous oxide (N_2O); Hydrofluorocarbons (HFCs); Perfluorocarbons (PFCs); and Sulphur hexafluoride (SF_6): *http://unfccc.int/kyoto_protocol/items/3145.php*

[24] Scope 1 emissions (direct emissions): emissions from activities owned or controlled by an organisation e.g. emissions from combustion in owned or controlled boilers, furnaces, vehicles; emissions from chemical production, etc.

[25] Scope 2 emissions (energy indirect): emissions associated with consumption of purchased electricity, heat, steam and cooling.

If you are investor, please answer questions 15-17.

Background Information

It would be very helpful if you could also provide some background information regarding your company.

5) What is the size of your company using the Company Act thresholds[26]: small, medium or large?

6) If any, which mandatory option/s would your company report under?

Option 2 – All UK Listed Companies

Option 3 - All Large Companies

Option 4 – Energy Threshold Option (At this stage firms that would qualify for reporting under CRC can be assumed to report under this option)

7) Which sector does your company operate within?

Your current measuring and reporting position

8) If your company reports its GHG emissions, do you do so to:

- Meet Companies Act requirements?
- Respond to investor request?
- To publicly reveal emission reductions, along with associated targets?

9) Does your company report on your GHG emissions? If so, could you provide a list of the existing areas that you report under:

- Annual Report and Accounts
- Carbon Disclosure Project
- EU Emission Trading System[27]

[26] Please follow this link for a description of the thresholds: *http://webarchive.nationalarchives.gov.uk/+/http://www.berr.gov.uk/whatwedo/businesslaw/financial-reporting/acc-audit-developments/page16361.html*

[27] See the DECC website for details: *http://www.decc.gov.uk/en/content/cms/what_we_do/change_energy/tackling_clima/emissions/eu_ets/eu_ets.aspx*

- Carbon Reduction Commitment[28]

- Climate Change Agreement

- Elsewhere?

10) Which emissions do you report?

(a) Carbon dioxide emissions only

(b) All, or some, of the 6 Kyoto GHGs[29]

(c) 6 Kyoto gases plus additional GHGs

There are two distinct elements of emissions captured within this IA.

I) On-site Emissions - Scope 1 and 2 Emissions, excluding transport

II) Direct emissions related to transport - respondents are asked to please be careful to only report emissions from transport that they own or control i.e. exclude business travel which is scope 3.

11) Do you report on-site emissions?

12) If you do not report on-site emissions, do you nevertheless centrally measure the energy use related to on-site emissions?

13) Do you report transport emissions?

14) If you do not report transport emissions, do you nevertheless centrally measure fuel use related to transport emissions?

Questions for Investors

If you are an investor, we want to know if there are any cost savings to investors from having access to better information on companies GHG emissions.

15) What are the types of cost savings available from having access to information on company's GHG emissions?

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[28] See the DECC website for details: *http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/crc/crc.aspx*

[29] The list of the 6 Kyoto GHG can be found here: *http://unfccc.int/kyoto_protocol/items/3145.php*

16) Can you provide an estimate of the annual value of these cost savings to your company? Please disaggregate these costs wherever possible, eg time saved and employee wage rate.

17) Are there other benefits to your company that cannot be monetised?

Thank you for answering these questions. We are very interested in your responses. If you are happy to provide more detailed information on the costs and benefits of reporting, additional questions are provided in the following sections.

Detailed Questions on Understanding Costs

Within the IA emissions are broken down into two distinct categories for costs and benefits:

The following questions try and obtain more detail on your company's current reporting activity and the costs of reporting. This is broken into the start up (transitional) costs and annual (ongoing) costs associated with reporting emissions. Please concentrate on the costs associated with collating information centrally and reporting publicly, rather than on the costs of investment in measuring devices such as smart meters.

In answering the following questions, please disaggregate cost estimates wherever possible, the more detail the better, including: naming distinct activities undertaken in reporting, the time taken in completing these activities, the wage rate of those undertaking the activities, the costs of investing in IT or other systems related to activities, the costs of consultancy related to activities, and any other significant costs.

As existing reporting mandatory requirements (e.g. ETS) currently report on carbon dioxide emissions only, the following includes a question on *additional* costs of reporting the emissions from the other Kyoto GHGs.

Understanding the Costs of Reporting On-Site Emissions

18) Do your on-site energy use emissions arise from UK sites only?

19) Could you provide emissions data related to your company's total annual on-site emissions?

(a) For UK emissions

(b) Where you have non-UK operations, please provide details of your overseas emissions. If it is not possible for you to provide actual overseas emissions data, could you estimate the percentage (%) of your company's total on-site emissions related to UK sites?

20) What are the annual (ongoing) costs of reporting emissions associated with on-site sources?

(a) For UK emissions

(b) For overseas emissions

21) What are the start-up (transitional) costs of reporting emissions for on-site sources?

(a) For UK emissions

(b) For overseas emissions

For companies that report on-site carbon dioxide emissions under the existing mandatory reporting requirements (EU ETS, CRC or CCAs), and voluntarily report wider GHGs related to these, we would be interested in understanding the additional costs of reporting these wider GHGs.

22) If you report on-site carbon dioxide emissions under existing mandatory reporting requirements, what are the annual (ongoing) *additional* costs of reporting these wider GHGs?

(a) For UK emissions

(b) For overseas emissions

23) If you report on-site carbon dioxide emissions under existing mandatory reporting requirements, what are the start-up (transitional) *additional* costs of reporting these wider GHGs?

(a) For UK emissions

(b) For overseas emissions

<u>Understanding the Costs of Reporting Transport Emissions</u>

24) Do your transport emissions arise from UK sites only?

25) Could you provide an estimate your company's annual transport emissions?

(a) For UK emissions

(b) Where you have non-UK operations please provide details of overseas emissions. If it is not possible to provide emissions data, could you estimate the percentage (%) of your company's total annual transport emissions from UK sites?

26) What are the annual (ongoing) costs of reporting transport emissions (both carbon dioxide and the other Kyoto gases)?

(a) For UK emissions

(b) For overseas emissions

27) What are the start-up (transitional) costs of reporting transport emissions (both carbon dioxide and other Kyoto gases)?

(a) For UK emissions

(b) For overseas emissions

As noted above, where possible, please provide a breakdown of the key elements of these costs.

Detailed Questions on the Benefits of Reporting Distinct Parts of Scope 1 and 2 emissions

We understand that estimating the benefits associated with measuring and reporting fuel use may be difficult to estimate, or to attribute to certain activities. However, this input will help us understand the benefits realised by companies by reporting.

28) If you report emissions, how has this delivered benefits?

29) Has reporting on-site emissions resulted in further emission reductions over and above those driven by measuring on-site emissions? If yes, could you also specify the additional percentage emission reductions generated by reporting?

30) Has reporting transport emissions resulted in further emission reductions over and above those driven by measuring transport emissions? If yes, could you also specify the additional percentage emission reductions generated by reporting?

31) If so, and if applicable, could you specify the additional percentage emission reductions generated by this policy related to transport emissions?

32) If reporting led to emission reductions, what has been the main driver for the emission reductions that have been achieved?

33) What other benefits have been realised from reporting emissions?

Contact Details

If you are happy to provide one, in case we have any further follow up questions to the answers provided, we would be interested in obtaining contact details for your company. Please provide a contact email address, telephone number and contact name, if there is a preferred contact.

Annex B – Glossary

Activity data: Information on material flow, volume and rates or fuel consumption, input materials, or production output that is used to calculate GHG emissions.

Assurance: The statement which concludes the degree of confidence that users can have about the scope, evaluation or measurement of certain subject matter. In this context, assurance considers whether the correct environmental information has been reported. (See also verification).

CO_2e: CO_2e is a universal unit of measurement used to indicate the global warming potential of one unit of carbon dioxide. It is used to evaluate the releasing of different GHGs against a common basis.

Emission factors: Emissions factors or GHG conversion factors allow organisations and individuals to calculate the GHG emissions from a range of activities, including energy use, water consumption, transport and waste disposal by converting activity data (e.g. litres of fuel used, number of miles driven) into kg of CO_2e.

Intensity Ratio: Intensity ratios express GHG impact per unit of physical activity or unit of economic output. It allows emissions data to be made comparable over time or between different business sectors by dividing emissions by an appropriate activity or financial metric. Floor space or full time equivalents are examples of activity metrics while £ million sales is an example of a financial metric. The choice of metric will depend on the type of business. The Defra/DECC guidance provides some advice on selecting appropriate metrics for intensity ratios.

Private company: A company which is not a public company and which is not allowed to offer its shares to the general public. Privately held companies are owned by a single individual or a small group of shareholders.

Quoted company: A quoted company is defined in section 285 of the Companies Act 2006 as a company whose equity share capital is listed in the UK or in an EEA State, or admitted to trading on the New York Stock Exchange or Nasdaq.

Verification: The process of reviewing, testing, checking, auditing, or otherwise establishing and documenting whether information and data disclosed conforms to specified requirements. In this context verification checks the validity of the data reported.