Mandatory Carbon Reporting

Briefing for UK incorporated listed companies

This briefing is designed to help sustainability and compliance officers engaged in reporting for listed companies readily understand what they **need to know** regarding **Mandatory Carbon Reporting**. Additional briefings will be issued by Best Foot Forward once the reporting requirements have been finalised.

NEW OBLIGATIONS

17th October 2012 marked the end of the consultation period in relation to the proposed Greenhouse Gas Emissions (Directors' Reports) Regulations 2013 (the **Regulations**) – these will soon provide for mandatory reporting of greenhouse gas emissions by listed companies.

The Regulations will place reporting requirements on over 650 additional companies that are not already reporting their greenhouse gas emissions under frameworks such as the Carbon Disclosure Project or similar.

HOW AM I AFFECTED?

Which listed companies are covered?
Companies incorporated in the UK and listed either by UKLA, in an EEA state or the New York Stock Exchange. (Note that companies listed on AIM are not presently caught by the Regulations although the Government has confirmed it will review the scope of inclusion in 2015).

When do the Regulations come into effect?
It is anticipated that the Regulations will come into force for reporting years ending after April or October 2013. Companies will need to report on the first financial year end following the Regulations coming into force.

How does reporting take place?
Reporting is via the Directors' Report filed at Companies House within 6 months of a company's financial year end (s442 Companies Act 2006).

What emission sources are covered?
Combustion of fuel, use of any means of transport and operation of manufacturing processes operated, owned or controlled by a company together with the purchase of electricity, heat, steam or cooling. For those familiar with carbon accounting concepts this reporting requirement is similar to direct emissions (also known as Scope 1), and indirect emissions from purchased electricity, heating and cooling (also known as Scope 2). Companies will have to implement data collection process for global operations – not just those in the UK.

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Which greenhouse gases are covered?
All Kyoto greenhouse gases are covered – further defined in s92 of the Climate Change Act 2008 as carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCS), perfluorocarbons (PFCS) and sulphur hexafluoride (SF_6).

What needs to be reported?

1. The annual quantity of greenhouse gas emissions expressed in carbon dioxide equivalent arising from its activities (the annual Scope 1 and 2 footprint).
2. An intensity ratio which expresses a company's greenhouse gas emissions as against any quantifiable activity of the company such as turnover or number of FTEs.
3. The first year's greenhouse gas emissions for which relevant information is available is to be repeated each year in order for the company's emissions to be tracked over time.

(Note the use of data from Climate Change Agreements, EU ETS and the CRC Energy Efficiency Scheme is permitted but a company taking advantage of this provision must declare that it has used data from these schemes).

What accounting methodology must be used?
The company is required to disclose the methodology used to calculate its greenhouse gas emissions. The

Regulations do not state a preferred methodology but cite the Defra Guidance, GHG Protocol, ISO 14064 and the Climate Standards Disclosure Board's Climate change Reporting Framework as possible options.

GREY AREAS

Organisational boundaries

The organisational boundary chosen for the greenhouse gas emissions is likely to be required to be the same as that used for financial reporting.

Assurance/Verification

The Regulations are silent as to assurance/verification but the Government has acknowledged the value these have in improving the quality of data reported. Furthermore, the Regulations mean that for the first time directors of a company may be formally liable for material omissions or misleading statements in relation to the company's greenhouse gas emissions.

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Comply or explain clause

Where greenhouse gas emissions data is not available a "comply or explain" clause will operate –details as to how this will be administered are as yet unknown.

WHAT SHOULD I BE DOING NOW?

Prepare

As with the CRC Energy Efficiency Scheme, mandatory reporting will impose new obligations on companies caught by the Regulations. Many companies will not prepare sufficiently for the increased administrative work of ensuring compliance – **don't let this be you!**

BEYOND MANDATORY REPORTING?

Reporting requirements are likely to increase in the future – both in terms of what needs to be reported and also which companies will need to report. The trend for increasing emissions legislation means that all large companies – whether listed or not – need to be prepared for carbon reporting.

Whilst mandatory reporting has a role to play in the transition to a low carbon society, from a company perspective a wider, deeper approach to sustainability is required if the full benefits are to be realised. Many of our clients initially approach us with a view to quantifying their emissions –as a response to voluntary carbon reporting frameworks, stakeholder pressure etc. – but this initial approach is just the start of their sustainability journey. There are increasingly sound business reasons for resource efficiency and GHG reductions: In addition to measurement and reporting, we have helped many clients develop and establish their sustainability strategy through providing evidence and insight to reduce costs, enhance reputation and brand value and mitigate risks.

Providing evidence and insight to reduce costs, enhance reputation and brand value and mitigate risks

By moving beyond reporting towards a broader sustainability strategy, businesses can create value in the form of resource and cost efficiencies, ensure robust and secure supply chains and meet with the growing investor and public demands for sustainable business practice.

Contact **Dave Cooke, Consultant** for advice on mandatory reporting and your sustainability strategy.
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About Best Foot Forward

Best Foot Forward is an award-winning sustainability consultancy which specialises in carbon and ecological footprinting. The company offers evidence-based strategy to help organisations reduce their environmental impact in a world of limited resources.

Best Foot Forward has been leading international developments in footprinting methodologies and tools since 1997. The core textbook on ecological footprinting, 'Sharing Nature's Interest', was co-written by the company's founders and its team advised on the development of PAS2050, as well as several protocols from the World Resources Institute and the World Business Council for Sustainable Development.

Best Foot Forward has unrivalled experience, having helped hundreds of clients spanning government bodies, multinational corporations, SMEs and the third sector. It has calculated thousands of footprints for products, organisations, regions and events, from carrots to county councils, from wine bottles to Wimbledon.

The company's mission is to help organisations, regions and communities to reduce their footprint. In 2012, it was awarded the Environment Product/Service Award at the Environment and Energy Awards for its Product Portfolio Footprinting service, which helps multinational corporations to tackle their supply chain footprint.

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