Reporting Report Card: Why Climate Change Disclosure is so Poor

Corporate Climate Response
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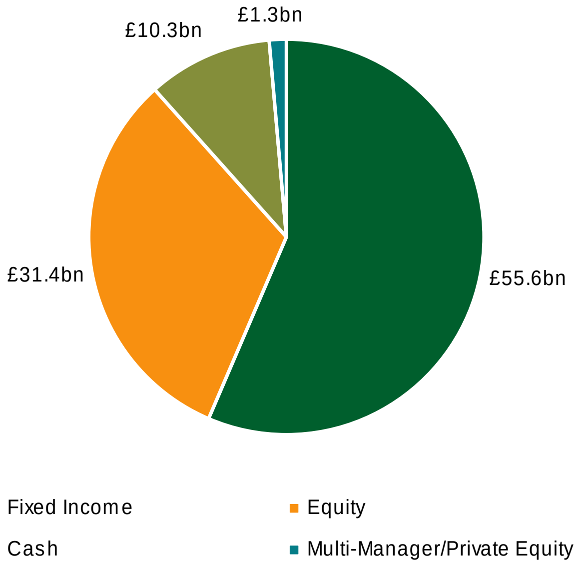
About Insight

- The autonomous asset management company of the HBOS Group
- £98.6 billion assets under management[1]
- Overarching corporate governance and corporate responsibility policy that applies to all assets under management



[1] Source: Insight Investment as at 31 December 2006

Is Climate Change an Investment Issue?

Yes….

- Regulation
- Direct impacts of weather events/changes in climate
- Litigation risk
- Opportunities (e.g. alternative energy, emissions trading)

…and for all asset classes, not just equities

What Do Investors Need to Understand?

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Exposures to climate change risk and opportunities:

- Current and future greenhouse gas emissions
- Current and future regulatory exposures (e.g. allocations under EU ETS)
- Business strategy/investment plans
- Exposure to the physical impacts of climate change
- Opportunities, e.g. new products

Quality of management:

- Policies, objectives, targets
- Governance and management systems
- The manner in which climate change risks and opportunities are integrated into corporate strategy
- Investments – capital and operating – to respond to climate change and the outcomes expected from these investments

Characteristics of Corporate Climate Change Reporting

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Companies invest significant time and resources in environmental reporting and in responding to initiatives such as the Carbon Disclosure Project but, too often, this information is of limited value to investors.

- Lack of clarity on how climate change affects strategy
- Lack of basic data on operations
- Incomplete inventories
- Inappropriate aggregation of data (e.g. emissions data not broken down by country)
- Lack of clarity on strategies for emissions abatement or offset
- Lack of information on investment plans and how climate change impacts on business strategy

Excuses, Excuses….

- “We think ill-informed investors or NGOs will misuse the data”
- “Total emissions are not a relevant business metric”
- “But we report to CDP”
- “We are a decentralised company so we don’t collect data for all subsidiaries”
- “Investors don’t really care about CSR performance”

Investor Disclosure Initiatives: Some General Reflections

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Investor disclosure initiatives include the Carbon Disclosure Project, Global Reporting Initiative and the Carbon Risk Disclosure Initiative

These initiatives have:

- Helped raise the profile of climate change as an investment issue
- Contributed to an increase in the number of companies disclosing information on greenhouse gas emissions

However, these initiatives suffer from a number of limitations that limit their usefulness to investors:

- Lack of strong drivers to improve the quality of reported data
- Backward-looking
- Questions tend to be non-specific and general
- Multiplicity of initiatives

What Might Good Disclosure Look Like?

Case-Study 1: Electricity production for an electricity utility

Country / Fuel Type	Installed Capacity (MW)	Planned Capacity Changes -- in each calendar year (MW)							Total Installed Capacity -- at year end (MW)					
	2005	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011
Country A														
Coal														
- Hard														
- Lignite (Brown)														
Fuel Oil														
Gas														
Combined Cycle														
CHP														
Hydro														
Nuclear														
Wind														
Solar														
Biomass														
Other														
Country A Total														
Country B														
Coal														
- Hard														
- Lignite (Brown)														
Fuel Oil														
Gas														
Combined Cycle														
CHP														
Hydro														
Nuclear														
Wind														
Solar														
Biomass														
Other														
Country B Total														
Country C														
TOTAL														

Source: Sullivan & Kozak (2006)

What Might Good Disclosure Look Like?

Case-Study 2: Greenhouse gas emissions from an electricity utility

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	CO_2 Emissions							
	1990		. . .	2005		. . .	2012 (est)	
Country / Fuel Type	Absolute (tonnes)	Specific (tonnes/GWh)		Absolute (tonnes)	Specific (tonnes/GWh)		Absolute (tonnes)	Specific (tonnes/GWh)
Country A								
Coal								
- Hard								
- Lignite (Brown)								
Fuel Oil								
Gas								
Combined Cycle (CCGT)								
CHP								
Hydro								
Nuclear								
Wind								
Solar								
Biomass								
Other								
Country A Total								
Country B								
Coal								
- Hard								
- Lignite (Brown)								
Fuel Oil								
Gas								
Combined Cycle (CCGT)								
CHP								
Hydro								
Nuclear								
Wind								
Solar								
Biomass								
Other								
Country B Total								
Country C								
TOTAL								

Source: Sullivan & Kozak (2006)

Areas for Improvement 1: Disclosure Expectations

Companies should:

- Provide forward-looking information including
  - Greenhouse gas emission projections
  - An assessment of the financial implications of the physical impacts of climate change
  - An assessment of the financial implications of climate change policy/regulations
- Follow the WBCSD's greenhouse gas protocol
- Be clear on reporting boundaries
- Break emissions down on a country-by-country basis and by subsidiary
- Assure climate change-related data in a similar manner to corporate financial data
- Discuss material or strategically important climate change impacts in their annual reports and accounts

Areas for Improvement 2: The Investment Community

Investors need to:

- Communicate directly to companies the importance that is assigned to climate change as a business risk; it is not enough just to delegate this to a third party
- Encourage companies to report in a consistent and comparable manner that facilitates investment analysis
- Communicate to companies that disclosure is only part of the picture; investors expect companies to properly manage climate change risks
- Explain how climate change – risks and opportunities from adaptation as well as emissions – is integrated into investment analysis

References

Websites

Insight's work on climate change: www.insightinvestment.com/Responsibility/Engagement/climate_change.asp

Publications

Rory Sullivan (2006), ***Climate Change Disclosure Standards and Initiatives: Have they Added Value for Investors?*** www.insightinvestment.com/Documents/responsibility/climate_change_disclosureinitiatives_report.pdf

Rory Sullivan & Jennifer Kozak (2006), ***The Climate Change Disclosures of European Electricity Utilities*** www.insightinvestment.com/Documents/responsibility/Climate_Change_Disclosures_Report.pdf

Thank you

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Notes

We would also point out:

- All features in this pack are current at the time of publication but may be subject to change in the future.

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