Guidance on mandatory reporting requirements for quoted companies

Under the Quoted Companies Greenhouse Gas Emissions (Directors' Reports) Regulations 2013 quoted companies are required to report their annual emissions in their directors' report.

This section specifically applies to those companies affected by the regulation. It sets out the requirements and additional information that is likely to be useful to data-users but is not a requirement.

Is my company required to report?

Quoted companies in this respect are those that are UK incorporated **and** whose equity share capital is officially listed on the main market of the London Stock Exchange; or is officially listed in a European Economic Area State; or is admitted to dealing on either the New York Stock Exchange or NASDAQ. Companies within the scope of the regulation must adhere to its requirements.

If you are a company or organisation not affected by these regulations you are recommended to report voluntarily in line with the best practice guidance in Part 3. Quoted companies may also choose to report in line with that guidance in addition to meeting the regulatory requirements.

Determine whether you are a quoted company required to report within the terms of the regulation. Check with your finance director or company secretary if you are unsure.

When will my company have to start reporting?

The requirement comes in to place for company reporting years ending on or after 1 October 2013. You will need to check what reporting year your company uses. This refers to the year-end date, not the date of publication of the directors' report.

Your usual financial year	Your first reporting year under the regulation
1 January to 31 December	1 January 2013 to 31 December 2013
1 April to 30 March	1 April 2013 to 30 March 2014
1 October to 30 September	1 October 2013 to 30 September 2014

Depending on your financial year, your company might be required to report data on emissions that occurred before the regulation was made. If you do not have the information necessary to meet the regulatory requirement in the first reporting year, you must either:

- Provide an estimation instead based on extrapolating data that you do have, or use generic data that is not specific to your company. You are required to disclose your methodology and this would form part of your methodology; or.
- explain why you are unable to provide 12 months' data.

What period should I collect data for?
You should ideally report on emissions for the period corresponding with your company's financial year. You may report emissions for a different twelve month period to your financial year but you must state in the directors' report if you have done so. For example, company A historically reports emissions data on a calendar year basis whereas their financial year is April to March. In this example company A could either continue to report emissions on a calendar basis or switch to reporting emissions on a financial year. If you report emissions for a different period to your financial year, the majority of your emission reporting year should still fall within the period in directors' report.

Quoted companies may use a reporting time period that does not correspond with their financial report, but must state if they have done so.

What must my company report?

A quoted company is required to report emissions on activities 'for which the company is responsible'. This includes reporting on your company's emissions outside of the UK where you have overseas operations. In assessing which activities you are responsible for, you must report on those activities for which you have power or direct control over the extent to which greenhouse gases are emitted.

Many companies that are required to report by the regulation will be parent companies who present consolidated accounts which include:

- Subsidiaries
- Associates
- Other equity investments
- Franchises
- Leases and tenancies
- Joint arrangements (including joint ventures and joint operations)[1]

All of the above can be activities for which the company is responsible and sources of emissions. "Emission source" is used in the following text to cover the above listed items. In assessing which emissions need to be reported, you should judge the extent of your control over the emission source.

As set out in IFRS 10, a company has control over another when it has power over it, including "the ability to direct the relevant activities" 2. You should consider the extent to which you have control over the emission source. You may also have other emission sources not usually included in consolidated accounts so consider all types of emission sources and your ability to control them and issues such as whether your company is under contract to operate, for example, an asset, such that it also has power to control the extent to which greenhouse gases are emitted.

In reporting your emissions, it is recommended that you state in your directors' report the emissions sources which your information covers. If, having decided which emissions you have control over, you do not report emissions from emission sources that fall within the consolidated accounts, you should make this clear. Equally if you decide you have control over emissions from emission sources that are not within the consolidated accounts and you report those emissions, you should explain this. It is your decision to decide the approach to "control" that best represents the emissions for which you are responsible.

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[1] The items listed in the final bullet point reflects the terminology used in International Financial Reporting Standard 11 "Joint Arrangements" that comes into effect for annual periods beginning on or after 1 January 2013. It classifies 'joint arrangements' into 'joint ventures' and 'joint operations'. It replaces Internal Accounting Standard 31 "Interests in Joint Ventures" and its classifications of jointly controlled entities, jointly controlled operations and jointly controlled assets.

[2] International Financial Reporting Standard 10, Consolidated Financial Statements, Para B3

For example, you may conclude that you have control over the GHG emissions of one of your associate undertakings, hence include them in your inventory even though you do not consolidate but equity account for that associate in your consolidated accounts: you must explain this. Alternatively, you may consolidate a subsidiary but conclude you do not control the GHG emissions of that subsidiary, hence exclude them from your inventory in which case you must explain why.

> Quoted companies must report on emissions from activities under their control.

Must I report all my emissions?

You are required to quantify and report on emissions of the following greenhouse gases[3] - carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6). (But see later guidance for a discussion of materiality.)

You are not required to give individual figures for emissions of each of the GHGs listed. Indeed few companies will emit all of the GHGs listed. However, you must state in your directors' report the annual quantity of GHG emissions in tonnes[4] of carbon dioxide equivalent[5] (CO_2e) from the following emission sources:

a) the combustion of fuel e.g;

- Stationary combustion: combustion of fuels in stationary equipment such as boilers, furnaces, burners, turbines, heaters, incinerators, engines,flares, etc.
- Mobile combustion: combustion of fuels in transportation devices such as automobiles, trucks, buses, trains, airplanes, boats, ships, barges, vessels, etc.

b) the operation of any facility.

This category is not limited to emission sources that are permanent or land-based or stationary. This category would also include emission sources that

[3] As defined in section 92 of the Climate Change Act 2008

[4] Tonnes or metric tons

[5] The Climate Change Act 2008 says a "tonne of carbon dioxide equivalent means one metric tonne of carbon dioxide or an amount of any other greenhouse gas with an equivalent global warming potential (calculated consistently with international carbon reporting practice)."

are: mobile ; temporary e.g. mobile offices; and marine-based e.g. oil production platforms.

The following types of sources of emissions should be considered when identifying emissions on which to report[6]:

- Process emissions: emissions from physical or chemical processes such as CO2 from the calcination step in cement manufacturing, CO2 from catalytic cracking in petrochemical processing, PFC emissions from aluminum smelting, etc.

- Fugitive emissions: intentional and unintentional releases such as equipment leaks from joints, seals, packing, gaskets, as well as fugitive emissions from coal piles, wastewater treatment, pits, cooling towers, gas processing facilities, etc.

You must report on emissions from biogenic or biologically-sequestered carbon. Companies must report emissions from the burning or combustion of biomass, biofuel and biogas and processes that result in emissions from biogenic carbon sources such as industrial fermentation.

You must also report a separate figure giving the annual quantity of emissions in tonnes of carbon dioxide equivalent resulting from the purchase of electricity, heat, steam or cooling by the company for its own consumption.[7]

The totals arrived at from the above are similiar respectively to Scopes 1 and 2 of the GHG Protocol Corporate Standard and the direct emissions and energy indirect emission categories of ISO 16064-1. However, there are some differences[8].

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[6] This list is taken from page 41 of the GHG Protocol Corporate Accounting and Reporting Standard.

[7] Electricity traders would not report the emissions from electricity that they bought for re-sale within this category, although they could report these emissions as a separate, optional information item.

See best practice guidance for how to account for emissions associated with the consumption of electricity, heat, steam or cooling generated by another organisation, which you do not pay for. s This is more likely to occur with heat where the generating organisation has surplus heat that it passes to another organisation rather than waste it.

[8] In both these standards, carbon dioxide from the combustion of biomass/biogas/biofuel would be reported separately from emissions from the combustion of fossil fuels. The exception to this would be the small amounts of methane and nitrous oxide that is emitted when the biogenic material is combusted. This would be reported within the relevant scope.

You are **not** required to report on other emissions associated with inputs into your company (such as emissions from your supply chain) or emissions linked with outputs from your company (such as emissions from your products when they are used by your customers). However, you should consider reporting separately on these to give a wider picture of your organisation to investors and shareholders (See Annex A on Scope 3 emissions).

Your emissions data should be useful in helping you to manage your emissions and identify potential savings, as well as potential risks and opportunities. Your report may also be used by others to understand your company's operations and how you are managing the emissions over which you have determined you have control. Existing and potential investors and shareholders may use your data to make decisions on their interests in your company. Moreover, other stakeholders such as NGOs, companies and private individuals may also be interested in the data to understand your corporate performance on environmental matters.

Having established the activities for which your are responsible, you may also wish to consider whether particular emissions are material to the total of your company emissions. Information is material if its omission or misstatement could influence the economic decisions of users[9].

Materiality will depend on the circumstances of your individual company. It will be influenced by issues such as the size and nature of an operation. It is for you to judge whether an emission is material or not.

The '*characteristics of materiality aim to provide a 'workable filter on information, allowing investors to see major trends and significant events'*[10] and eliminate '*immaterial clutter*' and '*unnecessary or duplicative detail that obscures major trends and events*'[11]. In considering which emissions are material to your company's reporting needs within the regulation, you may wish to consider whether the collection and reporting of certain emissions or operations would have little additional value for users in the context of your companies overall emissions data and management[12].

You must make every reasonable effort to acquire all material data to comply with the regulations. However, there may be circumstance where you find it difficult to compile all necessary data in a timely manner to comply with reporting requirements, e.g. because of significant restructuring or acquistions by your company in the run up to producing your directors' report.

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[9] International Accounting Standard 1 – Presentation of Financial Statements;International Accounting Standard 8 - Acounting Policies, Changes in Accounting Estimates and Errors.

[10] Climate Change Reporting Framework – Edition 1.1 September 2012. Climate Disclosure Standards Board.

[11] *ibid*

[12] The European Securities and Markets Authority (ESMA) is considering views on the consistent application of the concept of materiality. You may find ESMA's work and the Consultation Paper 'Considerations of materiality in financial reporting' useful for further information on materiality.

Should you be in the situation where you cannot report on all your material emissions over which you have control you must state what is omitted and explain why in your directors' report. It is recommended that you set out the steps you are taking to acquire the information.

Quoted companies must report on all material emission of the 6 Kyoto gases from direct sources and from purchased energy.
Quoted companies must state in their directors' report if they have omitted any material emissions.

Must I use a particular methodology for my calculations?

There is no prescribed methodology under the regulations, but for effective emissions management and transparency in reporting it is important that you use robust and accepted methods. It is recommended that you use a widely recognised independent standards, such as:

- ISO14064 – Greenhouse gases. Part 1 (2006)
- The WRI / WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)

There are also reporting approaches and programs based on or drawn from the Greenhouse Gas Protocol and ISO 14064-1, including:

- The Climate Disclosure Standards Board Climate Change Reporting Framework – Edition 1.1 October 2012.
- The Global Reporting Initiative Sustainability Reporting Guidelines

The Carbon Disclosure Project has developed a list of commonly cited methodologies, protocol and standards[13]. There may be existing methodologies developed by certain sectors, such as those for the petroleum industry[14]. Companies within those sectors may wish to consider using sectoral methodologies where appropriate. Whatever methodology you do use, it is recommended to consider if it conforms to high standards of acceptability and independence.

You may use relevant information from other domestic and international regulatory reporting processes to fulfil your mandatory reporting obligations in your directors' report. For example data from the following may be useful:

- Climate Change Agreements (CCA)
- The EU Emissions Trading Scheme (EU ETS)
- The Carbon Reduction Committment Energy Efficiency Scheme (CRC)
- Reporting or disclosure schemes in other countries

[13] Guidance for responding companies. Investor CDP 2012. CDP Supply Chain 2012. See Q7.2

[14] The International Petroleum Industry Environmental Conservation Association (IPIECA) Petroleum industry guidelines for reporting greenhouse gas emissions.

If you have used data compiled in fulfilment of other regulatory requirements, then state this as it is part of the methodology that you have used to make your report.

If you decide to use information from other regulatory schemes, you need to consider whether additional data is needed to satisfy mandatory reporting requirements. Data under other schemes may only cover some of your organisation's GHG emissions and only give part of the required information. For example the CRC scheme only applies to certain emissions in the UK and only covers carbon dioxide, so the electricity figure calculated under CRC would be different to one calculated under Defra's reporting guidelines or GHG Protocol Corporate Standard. You will need to consider where the data you have collected needs to be supplemented with additional information.

You must state in your directors' report the methodology or methodologies used.

Quoted companies must state what methodology or methodologies they have used for calculating their GHG emissions.

How do I track emissions over time?

Reporting of previous years' emissions with your latest information provides readers with the ability to see trends in your emissions over time.

With the exception of the first mandatory reporting year, you must repeat the emissions data disclosed in your previous report alongside information on emissions from your present year. In effect you will have a rolling one year comparator for your data.

If you have been voluntarily reporting your greenhouse gas emissions for a number of years, you will have information that could be helpful to readers to understand trends and how your company is managing emissions. You may wish to report information beyond the minimum mandatory requirement of the previous year to give readers a longer emissions history.

If companies have undergone structural changes since the previous reporting period, they may wish to re-calculate the previous year's emission figures. Chapter 5 of the GHG Protocol Corporate Standard explains about re-calculating past emission figures. This is **not** a regulatory requirement, but, if you have done so, please make this clear in your report.

Quoted companies must state the emissions disclosed in their previous years' directors' report alongside their current year's data.

Intensity ratios

Your directors' report must also express your emissions by way of an intensity ratio or ratios. Intensity ratios compare emissions data with an appropriate business metric or financial indicator, such as sales revenue or square metres of floor space. This allows comparison of performance over time and with other similar types of organisations.   Annex D provides further advice on intensity ratios and the measurements that may be appropriate.

Quoted companies must express their annual emissions using at least one intensity ratio related to their activities.

Should I get my emissions data verified?

There is no requirement in the regulations for mandatory reporting for emission data to be independently verified or assured. However, it is recommended as good practice. Independent verification and assurance on the accuracy, completeness and consistency of GHG emissions data will be beneficial to both internal decision-making and for external stakeholders. Part 10 provides further guidance on assurance.

The statutory auditor of the financial statement does not need to assure or verify environmental information provided in the directors' report. However they will be required to:

- consider whether the information is consistent with the financial statements[15]; and
- consider whether the information is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor in the course of performing the audit[16]
- if they become aware of such an inconsistency or apparent misstatement, and that matter is unresolved, they will consider the need to qualify their report. In addition, whilst they are not required to consider whether the directors' report complies with the relevant laws and regulations, if they become aware of any material non-compliance (which might include becoming aware of failure to provide material emissions data) then they would need to discuss the matter with management and those charged with governance.[17]

Example Corporate GHG Report

[15] S496 Companies Act 2006 and ISA (UK and Ireland) 720 Section B.

[16] ISA (UK and Ireland) 720 Section A (Revised October 2012).

[17] ISA (UK and Ireland) 250 Section A.

Global GHG emissions data for period 1 April 2013 to 31 March 2014		
	Tonnes of CO_2e	
	Current reporting year	Comparison year
Emissions from:	2013-2014	2012-2013
Combustion of fuel & operation of facilities	18,100*[1]	11,700*[2]
Electricity, heat, steam and cooling purchased for own consumption	14,500	15,100
Company's chosen intensity measurement: Emissions reported above normalised to per million tonnes of product output	0.49	0.54

*1 This includes 1,000 metric tonnes of biogenic carbon emissions.
*2 this includes 1,200 metric tonnes of biogenic carbon emissions.

Methodology
We have reported on all of the emission sources required under the Quoted Companies Greenhouse Gas Emissions (Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. We do not have control over any emission sources that are not included in our consolidated statement.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered to fulfil our requirements under the CRC, and emission factors from Defra/DECC's GHG Conversion Factors for Company Reporting.

Quoted companies must report their emissions in the directors' report.

Who will enforce mandatory reporting requirements?

The regulations are made under the Companies Act 2006, meaning enforcement of these provisions will be carried out by the Conduct Committee of the Financial Reporting Council. The Council monitors annual reports and accounts of public and large private companies for compliance with the requirements of the Companies Act 2006, including applicable accounting standards. The Council has a role to enquire into cases where it appears that the relevant disclosures have not been provided.

Ultimately, the Council is empowered to apply to the court under section 456 of the Companies Act for a declaration that the annual report or accounts of a company do not comply with the requirements of that Act and for an order requiring the directors to prepare a revised report and/or set of accounts.