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The Quoted Companies Alliance

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8 July 2011

Dear Ms. Douglas,

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

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The QCA Corporate Governance Committee has examined your proposals and advised on this response. A list of committee members is at Appendix B.

RESPONSE

We welcome the opportunity to respond to this consultation. We have responded to the seventeen question set out in the consultation document at Appendix A. Given the Quoted Companies Alliance's position as a representative body we do not consider that we have appropriate evidence to respond to the additional questions on Costs and Benefits raised by Defra through the Impact Assessment.

As you are aware, we attended the Defra workshop on 9 June 2011. The Quoted Companies Alliance noted with approval the statement from Defra at that workshop that it is not seeking to increase burdens on business at the current time but is seeking to encourage the use of information to drive behavioural change. We wish to represent the views of our members that we are supportive of initiatives that will improve the quality of corporate decision making and investment, but cannot support initiatives that will impose disproportionate costs and time burdens on businesses, particularly growth businesses in the small and mid cap sectors which represent a cornerstone upon which the United Kingdom will dig itself out of the current troubled economic times.

As such, we think it imperative for Defra to link this consultation exercise into the BIS consultation on The Future of Narrative Reporting (BIS response due for issue shortly) and the European Commission Green Paper on the EU Corporate Governance Framework.

Furthermore, Defra should take this GHG emissions consultation (anticipated by provisions now within Companies Act 2006) as an opportunity to work with DECC to link into the simplification of the CRC Energy Efficiency Scheme (on matter such as date capture and reporting and a single set of emissions factors).

Clear and consistent reporting will greatly facilitate compliance for companies and, accordingly, free up such companies to be a key engine of growth for the United Kingdom economy.

If you would like to discuss our response in further detail, we would be pleased to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive

APPENDIX A

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

Response to Consultation Questions on behalf of the Quoted Companies Alliance

Questions on the four options	
1. Do you support Option 1 (enhanced voluntary reporting)?	Yes but this would have to be done in conjunction with other Government initiatives including: • the BIS project on The Future of Narrative Reporting; • the DECC/HM Treasury amendments to the CRC Energy Efficiency Scheme; • EU-ETS reporting and CCA reporting; and • the EU corporate governance framework green paper.
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?	At this stage we do not think it appropriate for the focus to be on proposals to increase the <u>number</u> of companies reporting but rather focus should be placed on establishing a single consistent <u>benchmark for consistent and quality reporting</u> across all sectors, bringing in all relevant reporting obligations including CCAs, EU-ETS and the CRC Energy Efficiency Scheme (**"CRC Scheme"**) into a single date set, thus optimising the value of the information and data obtained without placing disproportionate additional burdens onto business. Accordingly we think that this is a process that should be done properly in conjunction with our European partners and given appropriate time to mature.
3. Should corporate reporting of GHG emissions be made mandatory for some companies? If so, please explain.	A level of corporate reporting of GHG emissions is already mandatory for those companies: • obliged to comply with the various schemes and arrangements already in place; and • for which GHG matters are particularly relevant as such companies must set out all relevant factors to its business in annual report and accounts and other public documents. At the current time there is a live consultation regarding the content of corporate narrative reporting. Accordingly further GHG reporting obligations may be imposed through that and the QCA is of a view that it would be inappropriate to pursue a policy not linked into any revision to the terms of narrative reporting.
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	The Quoted Companies Alliance's strong preference at this stage is Option 4 based on the qualification criteria for the CRC Scheme. The reason for this is that the CRC Scheme represents a

improving any of the regulatory options?	specific policy put in place to elevate carbon reporting on a standardised basis up the corporate and public sector agenda. The flaws with the CRC Scheme league table are well understood and appear likely to remain in the revised scheme. Accordingly it will be important for companies to set out in their public information the stories behind distorted and misleading data reported for CRC Scheme purposes. We concede that a significant weakness in using CRC Scheme data is that the CRC Scheme does not capture all relevant regulatory emissions for an entity. Accordingly, in the event that a simple and transparent standardised and consistent reporting basis is put in place we accept that it is likely that the GHG reporting requirement would have to be extended: we would support this at the appropriate time.
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?	 We have no comments on this - we appreciate the difficulty in seeking to scope the cost and benefit but expect that compliance costs have been underestimated. In particular, under the CRC Scheme companies have had to spend significant sums in indentifying the boundary of the group to comply with the complex and often misleading rules made under the CRC Scheme, including the non-legally binding guidance issued by the Environment Agency. A significant amount of these costs would have been unnecessary if accurate information has first been issued by the Environment Agency and if the CRC Scheme helpdesk had been given appropriate training.
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?	 We disagree. The Quoted Companies Alliance is strongly of a view that <u>if</u> mandatory reporting is introduced it should be necessary for companies to comply with a clear and concise reporting standard which is set out in the relevant regulations. This should not be a matter of discretion.
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?	 We believe that overseas operations should be reported separately, particularly if the CRC Scheme reporting is going to be used a basis for UK reporting. However, we believe that further integration should take place on a European level to ensure standardisation and consistency and reduce the burden on business in delivering various forms of data in different ways to different bodies and to shareholders.
8. Do you agree that, if it isn't possible for a company to report on all emissions within their organisational	 We agree if this is a practical problem but on the basis that this initiative should be based on CRC Scheme data we do not think this problem will arise in practice.

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?	Agreed.
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?	We do not think this is appropriate at this stage although we appreciate that this may arise in due course, as stated above, we believe that at this stage companies should use the CRC Scheme reporting data as the basis for narrative reporting on any mandatory GHG reporting requirements.
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?	We do not think this is appropriate at this stage although we appreciate that this may arise in due course, as stated above, we believe that at this stage companies should use the CRC Scheme reporting data as the basis for narrative reporting on any mandatory GHG reporting requirements.
12. Do you agree that companies should specify in their directors' reports, the company's total annual amount of GHG emissions in CO2e broken down by direct emissions (scope 1) and indirect energy (scope 2)?	We do not consider this appropriate at the current stage.
13. Do you agree that companies should specify an intensity ratio?	No, we do not agree.
14. Should companies specify a base year when they report their annual emissions?	Companies should not be obliged to specify a base year because as we have already indicated we support the used of CRC Scheme data for this purpose and, accordingly, calendar year 2008 would therefore be used as the base year for reporting.
15. Is there any other information which you think a company should report?	Yes, we believe companies should report all relevant information in their narrative reporting but this is a matter addressed through the provisions of the Companies Act (under the remit of BIS) and the Financial Reporting Council. We do not consider it appropriate for Defra to expand on the obligations within financial reports through separate

	measures.
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?	We do not think it appropriate to impose on business the requirement to seek external assurance of verification. This does not seem to a proportionate response at this stage and is a matter which would benefit verification businesses to the cost of operational businesses.
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?	To the extent as a business wishes to verify its information it should be left to that company whether it wishes to deliver such verification through internal audit processes or through seeking external assurance. Verification need not be an obligation but should be optional for the relevant company. In any event, a level of verification is achieved at that time of annual audit.

<u>Quoted Companies Alliance Corporate Governance Committee</u>

Tim Goodman (Chairman)	Hermes Equity Ownership Services
Edward Beale	London Finance & Investment Group PLC
Tim Bird	Wedlake Bell LLP
Dan Burns	McguireWoods
Nigel Burton	Petrosaudi Oil Services
Anthony Carey	Mazars LLP
Louis Cooper	Crowe Clark Whitehill
Madeleine Cordes	Capita Registrars Ltd
Edward Craft	Wedlake Bell LLP
Kate Elsdon	PricewaterhouseCoopers LLP
Nicola Evans	Hogan Lovells International LLP
Clive Garston	Davies Arnold Cooper LLP
Nick Graves	Burges Salmon
Eugenia Jackson	F & C Asset Management plc
Colin Jones	UHY Hacker Young
Dalia Joseph	Oriel Securities Limited
Derek Marsh	China Food Company PLC
Georgina Marshall	Aviva Investors
James Parkes	CMS Cameron McKenna LLP
Nick Teunon	FTSE International Limited
Andrew Viner	BDO LLP
Melanie Wadsworth	Faegre & Benson LLP
Cliff Weight	MM & K Limited
Kate Jalbert	Quoted Companies Alliance
Tim Ward	Quoted Companies Alliance

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The QCA is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The QCA is a founder member of European**Issuers**, which represents quoted companies in fourteen European countries.

QCA's Aims and Objectives

The QCA works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
    - corporation tax payable of £560 million per annum
    - income tax paid of £3 billion per annum
    - social security paid (employers' NIC) of £3 billion per annum
    - employees' national insurance contribution paid of £2 billion per annum
    -

The tax figures <u>exclude</u> business rates, VAT and other indirect taxes.

For more information contact:
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