Quoted Companies Alliance

6 Kinghorn Street
London EC1A 7HW

T +44 (0)20 7600 3745
F +44 (0)20 7600 8288
mail@theqca.com

www.theqca.com

Carla Hopkins
Sustainable Business and Environmental Reporting Team
Department for Environment, Food and Rural Affairs (DEFRA)
Area 5c, Ergon House
Horseferry Road
London, SW1P 2AL

ghgreporting@defra.gsi.gov.uk

18 October 2012

Dear Ms Hopkins,

Consultation of Greenhouse Gas (GHG) Reporting Draft Regulations

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size 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.

This response has been prepared by our Corporate Governance Expert Group, the members of which are set out in Appendix A.

Response

The Quoted Companies Alliance appreciates that DEFRA is taking a positive step to harness a clear direction of travel in relation to corporate Britain: improved transparency and narrative reporting. Many companies have already had to report under the EU Emissions Trading Scheme or, more recently, under the CRC Energy Efficiency Scheme. A broader constituency of companies has also been voluntarily measuring and reporting GHG emissions as part of their corporate responsibility policy, whether as part of the Carbon Disclosure Project or otherwise. Accordingly, for many, the new mandatory obligation should not create a significant additional regulatory burden.

However, our corporate members on the Official List are much smaller than the constituents of FTSE 350. Accordingly, the time and cost of compliance presents a new burden on those members. Any new reporting requirements should be proportionate and ensure that they do not stifle any potential growth of these companies, especially in the current economic climate. At the current time, companies quoted on AIM are not affected, but we expect that evolving best practice will lead to more companies making voluntary disclosures of GHG emissions.

No common reporting methodology

In declining to determine the manner in which reporting is to be made and, notably, not identifying a single reporting criteria to be applied, there exists a clear gap. In time, transparency in the manner of reporting needs evolve, most likely in conjunction with the UNFCCC structures and the European Union. At the current time we accept that it is not possible or appropriate for the UK government to impose a standard. However, we think that it is important for DEFRA to liaise closely with BIS, the FRC and other relevant bodies to both promote best practice and to determine if and when it is appropriate for a standard to be adopted. We agree that, as per the current proposal, it would not be appropriate for the GHG reporting narrative or supporting data to require audit.

One notable limitation which arises from not setting out a standard basis of statistical reporting is that the information cannot then be used for empirical financial analysis and comparison. Accordingly, its value to market commentators in defining trends will be limited. Ultimately, in the absence of a common reporting approach, the data gathered threatens to merely add to the noise already in existence within both financial analysis and carbon reporting.

We do appreciate that DEFRA did prepare guidance on greenhouse gas reporting under the previous government in 2009, but that guidance was not prepared in contemplation of the proposed regulations. Accordingly, we think that DEFRA should prepare more focused guidance in the context of mandatory GHG reporting and also commence an education programme for companies looking to comply with the new regulations and benefit from the information captured and analysed.

Class 1 and Class 2 Emissions

Whilst climate change specialists understand what is meant by these classes of emissions, such categories are not commonly understood by companies. Accordingly, as already noted above, we think it important for a clear information sharing process to be initiated by DEFRA to develop understanding of emissions reporting. It is important that DEFRA engages in a constructive dialogue with reporting businesses to facilitate not only compliance with the regulations, but the wise application of the information so gained as part of our response to climate change.

Timing of Implementation

We strongly believe that it would be appropriate if the regulations came into effect to coincide with the new BIS regulations on narrative reporting. Clearly, once the framework is understood, companies might decide to commence earlier reporting. But it will be much more useful and less burdensome to businesses, especially small and mid-size quoted companies,(and demonstrate joined up thinking within government, if the regulations were coordinated.

Worldwide Emissions

We interpret the draft regulations that UK companies will be obliged to report on worldwide emissions rather than UK emissions only. However, this is not clear and we think that this should be made clearer, both within the text of the draft regulations and as part of the information sharing exercise to be carried out by DEFRA.

We think that it is particularly important for DEFRA to work with companies in developing practicable methodologies for companies to then use, and benefit from, information gathered in respect of UK emissions under CRC-EES or CCAs or other regulated emissions. It will then be necessary to combine them with relevant non-regulated UK emissions and other overseas emissions so as to produce total emissions figures for mandatory corporate reporting.

Group Consolidation

In the same way as with many accounts disclosures, companies have flexibility to report certain disclosures with the consolidated accounts and for these to be referred to in subsidiary accounts, but not repeated. We think that a similar approach should be adopted in relation to mandatory carbon reporting. Provided that there is an appropriate statistical and narrative reporting of information in compliance with the regulations by one entity within a corporate group covering all relevant emissions of that group, a company should have a discretion to not report individually.

Training and information sharing

Clearly the objective of this policy is to improve the quality of narrative reporting in the energy space. Many companies have struggled in recent years to reconcile the changing and conflicting nature of low carbon policies. We hope that the policy landscape in relation to carbon reporting is a sign of increased stability.

We think that a culture of information sharing and the promotion of best practice is to be encouraged and supported. As part of this, we think it is important for DEFRA to get involved in a close dialogue with companies as to how information can be collected, presented and, most importantly, then used as a valuable instrument in the collective toolkit in mitigating and responding to climate change. DEFRA has a mission to promote awareness and to encourage a shift in behaviour. Therefore, it is important for DEFRA to work with BIS (the department businesses are most used to dealing with), DECC, and other relevant persons to best promote the corporate benefits arising from GHG reporting and to support companies in adjusting to its requirements.

We look forward to being able to cooperate with DEFRA in promoting the benefit of transparent GHG data and analysis to our membership.

Yours sincerely,

Tim Ward
Chief Executive

APPENDIX A

Corporate Governance Expert Group

Edward Craft, Wedlake Bell LLP (Chairman of Expert Group)
Edward Beale, Western Selection Plc
Tim Bird, Field Fisher Waterhouse
Dan Burns, McguireWoods
Anthony Carey, Mazars LLP
Louis Cooper, Crowe Clark Whitehill LLP
Victoria Dalby, Capita Registrars Ltd
Kate Elsdon, PricewaterhouseCoopers LLP
Nicola Evans, Hogan Lovells International LLP
David Firth, Penna Consulting PLC
David Fuller, CLS Holdings PLC
Clive Garston, DAC Beachcroft LLP
Tim Goodman, Hermes Equity Ownership Services
Nick Graves, Burges Salmon
David Isherwood, BDO LLP
Nick Janmohamed, Speechly Bircham LLP
Colin Jones, UHY Hacker Young
Dalia Joseph, Oriel Securities Limited
Doris Ko, Aviva Investors
Claire Noyce, Hybridan LLP
James Parkes, CMS Cameron McKenna LLP
Julie Stanbrook, Hogan Lovells International LLP
Eugenia Unanyants-Jackson, F&C Investments
Melanie Wadsworth, Faegre Baker Daniels LLP
Cliff Weight, MM & K Limited