

Reporting Template 1 – Strategic analysis

Introduction

Management's view of the company's strategy and in particular, the drivers of operational performance, customers, brands and innovation, provides vital non-financial information for investors in assessing the condition of the company,²⁶ together with details of the extent to which the implications of climate change are factored into management's determination of the company's strategy.

“At an overview level, institutional investors are interested in disclosures that communicate whether management has factored climate change issues into its strategic analysis. In particular, how is climate change likely to impact business strategy? What are the implications of climate change for a company's competitiveness? Is climate change a threat, an opportunity or both? What is the company's strategy for achieving greenhouse gas emissions reductions? What are the strategic implications of climate change issues for non-capital resources, such as development of innovative operating technologies, brand value and reputation?”

It should not be assumed that investors will understand climate change issues common to a given industry. Therefore, report preparers will want to communicate the potential significance to a given company of industry-specific climate change risks. It will be particularly important to disclose whether the company has adopted climate change risk management strategies different from those of its competitors.

Increasingly climate change can be expected to impact many strategic factors and key performance drivers such as availability of and access to resources, raw material and production costs, supply chain arrangements and market demand for products.

For companies with longer operating or investment cycles, it will be important to help investors understand the impact of structural changes in markets arising from climate change adaptation and mitigation issues.”²⁷

Disclosure Guide

The Framework relies on management to determine the content of climate change-related disclosures based on the Reporting Templates. **However, CDSB recommends as a matter of best practice that companies should, at a minimum, provide a statement reflecting the company's position on climate change in accordance with the guidance below:**

A statement of the company's position on climate change including:

- Whether or not management perceives that the implications of climate change already, or will in future, impact the company's business strategy; and
- An analysis of the implications of climate change for competitiveness and access to resources.

In addition, the following information should be considered for disclosure:

An explanation of all **significant actions the company is taking to maximize opportunities associated with climate change**. This might include participation in emissions trading schemes, research and development, investment in clean energy technologies, development and design of new products and services, etc.

An explanation of all significant actions the company is taking to **minimize, manage, and/or adapt to any risks associated with climate change** that are not addressed under Templates 2 and 3.

26 Corporate Reporting: Is it what investment professionals expect? PricewaterhouseCoopers Corporate Reporting Survey November 2007.

27 Building a Better MD&A: Climate Change Disclosures. A Canadian Performance Reporting Board Publication (2008) for the Canadian Institute of Chartered Accountants (CICA).

Risks other than physical and regulatory risks may include litigation and reputational risk.

“Investors recognize that a company’s reputation and brand are linked to long term share value. Companies run the risk of jeopardizing such intangibles as brand value, consumer confidence, employee loyalty and timely regulatory approval of projects if they are perceived as failing to address climate change issues. As the impacts of climate change become more apparent to customers, companies that are responsible for significant greenhouse gas emissions in either the production or use of their products or services may experience a decrease in demand for the products or services in question.

*Companies may be threatened by class action and other lawsuits brought by parties such as government bodies, communities, institutional shareholders or individuals. Heavy greenhouse gas emitters may be likely targets for such actions. In addition, corporate climate change disclosures are increasingly scrutinized by interested parties for their adequacy. To date, there are limited instances of climate change-related litigation against companies but over time this may change”.*²⁸

Information about risks and opportunities is decision-useful²⁹ where it:

- Describes, or cross-refers to other parts of the mainstream financial report that describe the company’s process and systems for identifying risks and opportunities and for assessing the degree to which they could affect the business, including the financial implications;
- Describes the current and/or anticipated risks and opportunities and the way in which the company can influence them directly and/or indirectly through customers, supply chain, markets etc;
- Explains the way in which risks and opportunities could affect the company’s business including its value chain and estimates the financial implications;
- Describes the timeframes over which risk and opportunities are assessed and estimates when they are expected to materialize;
- Identifies the geographical areas that are likely to be affected; and
- Estimates the financial implications of the significant actions the company is taking to maximize opportunity and to minimize, manage, and adapt to risk.

GHG emissions **reduction targets** and an analysis of performance against those targets.

Information about GHG emissions reduction targets is decision-useful where it:

- Describes the nature of the plans (e.g.: whether they involve GHG emissions reductions, energy efficiency and/or diversification, managing reliance on fossil fuels and so on);
- Explains the GHG reduction target (where one is set) including:
 - The type of target, whether absolute or intensity-based,
 - The timescales over which the company aims to achieve the target,
 - The target base year and GHG emissions for that year. The base year is the first or starting year against which emissions are evaluated toward the achievement of the target,
 - An explanation of the circumstances in which the target base year emissions have been or may be re-calculated retrospectively;
- Explains other goals and timescales that have been set under the plan and the key performance indicators against which those goals will be evaluated;

28 “Building a Better MD&A : Climate Change Disclosures. A Canadian Performance Reporting Board Publication (2008) for the Canadian Institute of Chartered Accountants (CICA) Page 7.

29 These characteristics are based on the Carbon Disclosure Project 2009 Information Request.

- Specifies the organizational boundary and the GHG emissions activities and/or, sources to which the plans apply;
- Describes the activities and investments required to achieve the plans and any risks or limiting factors that might affect achievement of the plans and/or targets; and
- Analyzes progress to date against previously set plans or targets.

Information about the **future outlook** for the company:

Information about the future outlook, including trends and factors related to climate change that are likely to affect management's view of the company's strategy for the timescales over which strategy is typically planned is useful when:

- There is a reasonable basis for it and any assumptions, uncertainties, or key dependencies that might affect it are disclosed;
- There is a direct link between the future outlook related to climate change and the company's assessment of its longer term objectives and strategies;
- It describes, or cross refers to parts of the mainstream financial report that describe long term strategic developments that may enhance opportunity or increase risk, such as organic growth, acquisitions or divestments, operational changes;
- It includes estimates of investment in or the cost of GHG abatement or climate change adaptation that could materially affect the growth, future earnings and/or direction of the company;
- It includes an estimate (together with the methodology/rationale used for the estimate) of future movements in direct and indirect GHG emissions, taking account of expected GHG emissions/energy efficiency and reduction plans; and
- It estimates any cost savings associated with GHG abatement/energy efficiency expectations.

"To the extent that some climate change disclosures may constitute forward-looking information (FLI) as defined by securities legislation, attention needs to be paid to securities regulators' requirements related to FLI. For example, FLI should only be provided when there is a reasonable basis for it. If FLI is provided, disclosures about related risks and assumptions must accompany it, together, with necessary cautionary language. Disclosures are also needed if it becomes apparent that the forward-looking climate change information is reasonably likely to be materially different from actual results or when the FLI is withdrawn. In recognition of its potential for variability, many entities disclose forward-looking climate change information in terms of a range of possible outcomes."³⁰

A description of **corporate governance actions**³¹ taken to address climate change, including:

- The governance processes and organizational resources the company has assigned to the identification and management of climate change issues;
- Whether the Board is engaged on climate change;
- How responsibility for climate change is delegated and how executives are held accountable for and/or rewarded for implementation of the company's climate change strategy;
- The nature and reliability of the underlying information and control systems used in tracking greenhouse gas emission information and providing climate change disclosures; and
- Whether the company's climate change information is subject to the same governance processes and disclosure controls and procedures as are used for other financial reporting information.

30 Building a Better MD&A : Climate Change Disclosures. A Canadian Performance Reporting Board Publication (2008) for the Canadian Institute of Chartered Accountants (CICA).

31 Building a Better MD&A : Climate Change Disclosures. A Canadian Performance Reporting Board Publication (2008) for the Canadian Institute of Chartered Accountants (CICA).