

# BUILDING A BETTER MD&A

CLIMATE CHANGE  
DISCLOSURES



A CANADIAN PERFORMANCE REPORTING BOARD PUBLICATION



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# PREFACE

The Canadian Performance Reporting Board (CPRB) is responsible for providing vision and leadership to the work of the Canadian Institute of Chartered Accountants (CICA) in advancing the measurement and reporting of organizational performance other than financial statement reporting. The CPRB has authority to publish such guidance documents and recommended practices as it considers to be in the best interests of the public.

This publication builds on the *CICA MD&A Guidance*\* and is intended to assist MD&A preparers in making decisions about the nature of annual MD&A disclosures regarding the business and financial impacts of climate change issues.

In October 2005, the CICA issued a Discussion Brief *MD&A Disclosure About the Financial Impact of Climate Change and Other Environmental Issues*. Since then, a number of important developments regarding climate change and its business implications have given rise to the need to update the Discussion Brief. In addition, Canadian institutional investors have encouraged the CICA to provide further guidance about MD&A disclosures regarding climate change. In developing this new publication, the CICA obtained input from institutional investors, as well as MD&A preparers, about the types of disclosures that would be most appropriate.

This publication is structured in five parts. Part 1 provides an orientation to the business issues of climate change. Part 2 discusses what investors want to know about climate change in corporate MD&As. Part 3 offers a process for identifying material climate change matters to be disclosed in the MD&A. Part 4 offers guidance for presenting MD&A disclosures. Part 5 focuses on the responsibilities of management, audit committees and boards of directors in overseeing the integrity of MD&A disclosures about climate change.

For more information on climate change issues and disclosure matters, see the climate change page at [www.cica.ca](http://www.cica.ca).

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\* CICA. *Management's Discussion & Analysis: Guidance on Preparation and Disclosure*, 2004.





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# 1 ORIENTATION TO BUSINESS ISSUES OF CLIMATE CHANGE

By its very nature, climate change is intrinsically an environmental issue, but it is one whose effects have wide-ranging economic, social and business impacts.

The business impacts of climate change may require companies to initiate adaptation strategies and risk management actions even for companies that produce relatively few greenhouse gas emissions and have little if any need to reduce such emissions. Some industries and companies will be more concerned with adaptation issues, others with mitigation. Adaptation involves taking action to minimize and respond to the effects of climate change on the business. These effects may be readily apparent or may take time to develop and may be cumulative. Mitigation refers to actions required to reduce greenhouse gas emissions, sooner or later.

The operations of many businesses are inherently linked to the environment, the condition of which is impacted in various ways by climate change. Consider the effects of climate change on sectors such as recreation (e.g. ski resorts, recreational fishing), agriculture (e.g. seeding dates, crop variety choices), fishing (e.g. the sensitivity of salmon to temperature changes in their spawning areas), forestry (e.g. the spread of the pine beetle epidemic due to a lack of continuous cold winters), insurance (e.g. the growth in the number and severity of natural disasters and extreme weather events) and many providers of critical infrastructure such as utilities and telecommunications (e.g. exposure of facilities to increased severe weather events). Although some industries cannot be considered large greenhouse gas emitters, their businesses may nevertheless be affected by climate change.<sup>1,2</sup>

Climate change may impact the entire structure of an industry, creating threats and opportunities for the sector and for companies within the sector.

In addition, as a result of government regulations or voluntary commitments, many companies may need to reduce their carbon footprint. Obligations to reduce greenhouse gas emissions may bring opportunities as businesses seek out and/or develop new technologies to deal with climate change issues. Prompt initiatives by a

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- 1 See *Climate Change: A Hot Topic for Chartered Accountants*. Institute of Chartered Accountants of Alberta, Spotlight, Spring 2008.
  - 2 World Business Council for Sustainable Development, *Adaptation, An Issue Brief for Business*, July 2008, discusses, with examples, adaptation issues for business, including associated risks and opportunities. [www.wbcsd.org](http://www.wbcsd.org)

company to improve production and distribution processes to reduce greenhouse gas emissions can result in competitive advantage.

For the above reasons, senior management and boards of directors of many companies are becoming engaged in the business and financial issues associated with climate change. Climate change issues will impact some industries and companies more than others. But sooner or later climate change will affect, either directly or indirectly, the business operations and financial performance of many Canadian companies, large and small, in most sectors.

It is likely that all companies will need to assess the nature and magnitude of existing and potential impacts of climate change. Examples of impacts include:

- **Continuity of Business Operations:** Companies that are particularly vulnerable to the impact of climate change may need to adapt to changes in operating conditions. Climate change may cause interruptions in operations, a modification of operations or possibly relocation of operations to adapt. In addition, companies that wish to qualify as suppliers to large corporations may increasingly face supply chain pressures to reduce greenhouse gas emissions attributable to their operations and products.
- **Access to Capital:** Shareholders and lenders are increasingly concerned about climate change impacts on businesses. They are becoming cautious about investing in companies and industries that have high climate change risks without appropriate adaptation and mitigation plans.
- **New Capital Expenditure Considerations:** Some capital expenditures may become more attractive when viewed through a climate change lens, others less so. In addition, the ability to buy and sell carbon offset credits creates a further dimension to capital expenditure decision-making and may make capital investments attractive where otherwise they would not have met hurdle rates.
- **Increased Inter-Jurisdictional Operating Complexities:** Companies that operate in multiple jurisdictions may have to deal with a variety of emissions regulations and emission trading systems, each with different rules, risks and opportunities.
- **New Considerations in Mergers and Acquisitions:** Mergers and acquisitions, never simple, may be complicated further by climate change risk, opportunity, and valuation factors that need consideration.
- **Operational Costs:** Costs such as those to comply with increasing government reporting requirements, costs for purchasing carbon credits for compliance, contributions to technology funds, and costs to implement tail-end removal of emissions will impact financial results.

Companies have a variety of channels to communicate to investors climate change impacts on strategy, risk management, operations and financial performance. These channels include securities filings.

Securities regulators have long recognized the need for reporting issuers to provide environmental disclosures that would be material to investor decision-making. Typically these disclosures have addressed matters such as financial liabilities related to environmental responsibilities, asset retirement obligations, financial and operational effects of environmental protection requirements, environmental policies fundamental to operations, and environmental risks.

Environmental disclosures are explicitly called for in the Annual Information Form, but regulators also recognize the importance of environmental disclosures in financial statements and MD&As.<sup>3</sup>

Reporting channels other than securities filings include annual reports, sustainability reports, corporate websites and responses to surveys, such as that of the Carbon Disclosure Project.<sup>4</sup> The challenge for companies is to determine what and how much to say in which channel to best serve the needs of investors, bearing in mind that different channels are subject to different levels of management and board oversight.

**As an overriding principle for answering this challenge, a company will need to determine what, if any, climate change information is likely to be material to investors in their decisions to invest or continue to invest in the company.** To the extent that information is likely to be material, then disclosures are generally required in securities filings.<sup>5</sup> If information is not disclosed in securities filings, investors may interpret this to mean that management has concluded that the information in question is not material to investor decision-making. Institutional investors have expressed their preference that a company state in its MD&A whether or not management perceives climate change to be a material issue.

Disclosure related to climate change matters is an emerging area. For many companies, providing the disclosures called for in this publication will be a multi-year, staged process of improving upon existing disclosures. In approaching the issue of which disclosures to concentrate on in the initial years, management will want to focus on “what keeps or should keep the CEO and/or CFO awake at night” in terms of risks, strategies and financial impact related to climate change.

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<sup>3</sup> Ontario Securities Commission Staff Notice 51-716, February 29, 2008.

<sup>4</sup> See [www.cdproject.net](http://www.cdproject.net).

<sup>5</sup> There are circumstances where companies can request confidentiality regarding material change filings.





## 2 WHAT INVESTORS WANT TO KNOW ABOUT CLIMATE CHANGE

Investors and analysts increasingly seek information to enable them to assess the impact of climate change and related regulations on a company's business and prospects<sup>6</sup>.

Climate change impacts and regulations will increasingly be reflected in financial statements.<sup>7</sup> Carbon taxes, regulatory emissions reduction targets and emissions trading create transactions and obligations that need to be recognized and, as appropriate, disclosed in financial statements.

Investors, however, want to know more about climate change than is normally disclosed in financial statements alone. MD&A disclosures should enable investors to understand how management views the current and potential impacts of climate change on the company and should therefore help investors evaluate and assess the impact of climate change issues on a company's current and future financial condition, results of operations and cash flows.

As with all MD&A disclosures, investors seek disclosures of material and relevant information—that is, information that would influence their decisions to invest or continue to invest in a company. Boilerplate disclosures are not useful, nor are MD&A disclosures about every possible impact and issue related to climate change. Management is expected to exercise its judgment in selecting those disclosures material to investor decision making.

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6 Institutional investors in Canada and the U.S. have expressed their dissatisfaction with existing disclosures by companies about climate change. For example, a broad coalition of investors with assets under management of \$1.5 trillion petitioned the U.S. Securities and Exchange Commission (SEC) in 2007 to require publicly-traded companies to assess and fully disclose their financial risks from climate change. Also the coalition formally asked the SEC's Division of Corporation Finance to immediately begin "[c]losely scrutinizing the adequacy of registrants' climate disclosures" under existing securities law — see <http://www.incr.com/NETCOMMUNITY/Document.Doc?id=187>. There has also been an increase in shareholder resolutions from institutional investors in both Canada and the US requesting specific disclosure about climate change issues — see <http://www.ceres.org/NETCOMMUNITY/Page.aspx?pid=855&srcid=874>.

7 In December 2007, the International Accounting Standards Board approved a project to determine how GHG transactions are to be accounted for under International Financial Reporting Standards (IFRS).

Institutional investors generally seek climate change information as it pertains to five specific areas: business strategy (including competitive threats and opportunities), risks, greenhouse gas emissions, financial impacts and governance processes. Each is discussed in more detail below. If a company has more than one reportable business segment, investors want information for each segment as well as for the company as a whole.

## 2.1 BUSINESS 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?

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.

## 2.2 RISKS

What are the risks that climate change poses for the business and what are the company's risk management strategies? The risks are generally regarded as falling into four categories: physical, regulatory, reputational and litigation.

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.

“Enterprises in the same industry, facing similar risks, will often choose different risk management actions because different managements have different risk strategies, objectives and tolerances. Investors need to be aware of these differences.”<sup>8</sup>

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8 Institute of Chartered Accountants in England and Wales, *Financial Reporting of Risk—Proposals for a Statement of Business Risk*, 1998.

Further, material climate change risks related to supply chains may differ from company to company and industry to industry.

Investors are interested in the potential magnitude of the impact of the risks and in the measures management has taken to manage the risks associated with climate change issues.

### 2.2.1 PHYSICAL

How might businesses and their supply chains be affected by physical risks of climate change? These may include the effects of changing weather patterns, increased frequency of extreme weather events, changes in temperature, sea level rises, shifts in species distribution<sup>9</sup>, changes in water availability and variations in agricultural yield and growing seasons.

### 2.2.2 REGULATORY

Companies face a very uncertain regulatory environment, where different jurisdictions may develop different approaches and regulations related to climate change.

How might current and expected climate change related regulation impact a company's business and prospects? Regulations may include not only greenhouse gas emissions limits and trading systems but also instruments such as carbon taxes, energy efficiency standards, building codes and environmental permits.

### 2.2.3 REPUTATIONAL

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.

### 2.2.4 LITIGATION

Companies may be threatened by class action and other lawsuits brought by parties such as government bodies<sup>10</sup>, communities, institutional shareholders or individuals. Heavy greenhouse gas emitters may be likely targets for such actions.

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9 E.g., the spread of the mountain pine beetle is seriously impacting the forestry industry.

10 In the fall of 2007, the New York State Attorney General issued subpoenas to five companies seeking better disclosures about climate change risks in their securities filings. In August 2008, one of the companies and the Attorney General reached an agreement committing the company to a specific list of climate change related disclosures to be included in the company's future 10K securities filings.

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.<sup>11</sup>

### 2.3 GREENHOUSE GAS EMISSIONS

When significant to evaluating performance and future prospects for the company as a whole as well as for each reportable business segment, institutional investors want direct and indirect<sup>12</sup> greenhouse gas emissions and related intensity data for the period covered by the annual MD&A.

In addition, they want estimates of future direct and indirect greenhouse gas emissions, including any established targets, expressed in both absolute and intensity terms.

For those companies that provided targets in previous reporting periods, it is useful for actual emissions to be compared to those targets, with accompanying analysis and explanations.

Comparability across companies and industries with respect to GHG emissions data, trends and targets is important. Investors want to understand the geographical, ownership and other boundaries<sup>13</sup> that management has established for measuring and reporting greenhouse gas emissions. They also want to be informed about any material limitations in the completeness or reliability of emissions data. It is important therefore that assumptions and methodologies<sup>14</sup> for emissions measurement and reporting be disclosed and be consistently applied from period to period.

Some companies are not yet in a position to provide GHG emission information in MD&As.<sup>15</sup> They have concerns about matters such as the reliability of underlying information systems and controls, the judgments and estimates that go into developing the emission numbers, various measurement and scope limitations, and other uncertainties, all of which impede meaningful cross-company and cross-industry comparisons. For some companies, overcoming these reporting challenges may necessitate a staged process over time to enable them to provide appropriate disclosures.

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11 KPMG, *Climate Changes Your Business*, 2008, page 34. Canadian Business for Social Responsibility, *The Climate Change Guide*, 2007, page 18.

12 Direct emissions are defined in the GHG Protocol revised on page 97 as: “Emissions from sources that are owned or controlled by the reporting company.” Indirect emissions are defined in the GHG Protocol Revised on page 99 as: “Emissions that are a consequence of the operations of the reporting company, but occur at sources owned or controlled by another company.”

13 As noted in the GHG Protocol Revised on page 96, “GHG accounting and reporting boundaries can have several dimensions, i.e. organizational, operational, geographic, business unit, and target boundaries. The inventory boundary determines which emissions are accounted and reported by the company.”

14 e.g. World Resources Institute/World Business Council for Sustainable Development GHG Protocol and ISO (International Organization for Standardization) Standard 14064-1 set out standards for measuring and reporting GHG corporate emissions.

15 The Government of Canada introduced mandatory requirements for facilities in a range of industries to provide information on 2006 greenhouse gas emissions by May 31, 2008.

## 2.4 FINANCIAL IMPACTS

How have climate change matters impacted financial operations, cash flows and financial condition? What are the future financial implications related to capital and operating expenditures, liquidity, commitments, liabilities or revenues associated with climate change strategies, risks and greenhouse gas emissions?<sup>16</sup>

Where there remains regulatory uncertainty, financial estimates can be provided in the form of ranges based on stated assumptions or scenarios.

It is useful to provide information on the financial impacts of climate change for reportable business segments, as well as for the company as a whole, so as to facilitate comparisons across companies and industries.

## 2.5 GOVERNANCE PROCESSES

What governance processes and organizational resources has the company assigned to the identification and management of climate change issues? For example, what is the nature of the involvement of the board of directors, committees of the board and senior executives in the area of climate change strategy and risk? What is the nature and reliability of the underlying information and control systems used in tracking greenhouse gas emission information and providing climate change disclosures? Is the company's climate change information subject to the same governance processes and disclosure controls and procedures as are used for other financial reporting information?

## 2.6 IMPORTANT DISCLOSURE CONSIDERATIONS

Three important considerations apply to all MD&A disclosures—materiality, continuity of disclosures and forward-looking information.

### 2.6.1 MATERIALITY

Investors want disclosures that are material—that is, information, quantitative or qualitative, that would influence a reasonable investor in his or her decision to invest or continue to invest in a company.

In considering materiality, management should consider whether the impact of a climate change issue might reasonably be expected to grow over time (possibly a few years ahead), in which case early disclosure of the matter might be important to long-term investors. This would be particularly relevant where the company is in an industry with a longer operating or investment cycle or where new technologies are going to be required.

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16 See Ontario Securities Commission Staff Notice 51-716 which noted that there were inadequacies in disclosures about environmental issues, including instances where information could reasonably have been quantified.

If information is not disclosed in securities filings, but instead offered only in voluntary reporting, investors may interpret this to mean that management has concluded that the information in question is not material to investor decision making.

### 2.6.2 CONTINUITY OF DISCLOSURES

Investors seek comparability and consistency in MD&A disclosures from period to period. Climate change matters disclosed and discussed in the MD&A of a given reporting period should be measured and presented in a similar manner in future MD&As.

In addition, climate change disclosures sufficiently important to have been made in prior reporting periods should not be dropped without explanation.


### 2.6.3 FORWARD-LOOKING INFORMATION

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.<sup>17</sup>

The forward-looking information disclosure requirements apply to any forward-looking information wherever it is presented, except forward-looking information contained in oral statements. Therefore these requirements apply to voluntary reporting documents and corporate websites as well as regulatory filings.

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<sup>17</sup> Canadian Institute of Chartered Accountants, CFO Beyond-GAAP Briefing, *Forward-Looking Information*, 2008.



# 3 DEVELOPING MD&A DISCLOSURES ABOUT CLIMATE CHANGE

In general, it is likely sufficient to provide MD&A disclosures about climate change on an annual basis. Only material changes to information reported in annual MD&As need be reported in interim MD&As.

For annual MD&As, it is practical to begin by reviewing information sources that will help to identify the key climate change impacts and issues most likely to be important to investor decision-making. If a company has more than one reportable business segment, this review should be carried out for each segment.

To identify potential material disclosures, management will want to review not only securities regulators' disclosure requirements and the company's financial statements and notes, but also a number of other sources.

## **3.1 SECURITIES REGULATORS' MD&A REQUIREMENTS**

Management needs to provide MD&A disclosures that meet regulatory disclosure requirements. Particular attention should be paid to climate change disclosures that would be called for by the following general provisions:

"Your MD&A should:

- help current and prospective investors understand what the financial statements show and do not show;
- discuss material information that may not be fully reflected in the financial statements...;
- discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in the future; and
- provide information about the quality, and potential variability, of your company's earnings and cash flow, to assist investors in determining if past performance is indicative of future performance."<sup>18</sup>

Further, management must disclose and discuss in the MD&A:

“commitments, events, risks or uncertainties that you reasonably believe will materially affect your company’s performance...”<sup>19</sup>

To the extent that such matters relate to climate change and are material, MD&A disclosure would be required.

Management of non-venture issuers are also required to consider whether any accounting estimates related to climate change qualify as “critical accounting estimates” and therefore require MD&A disclosure.<sup>20</sup>

Securities regulators do not permit disclosures deemed necessary for an MD&A to be provided by cross-referencing to information in other documents or locations, such as annual information forms, sustainability reports, responses to surveys, such as the Carbon Disclosure Project, or corporate websites.

Finally, management may wish to review securities regulators’ recent continuous disclosure reports<sup>21</sup> and staff notices as well as any comment letters received from regulators in the past that may relate to climate change matters.

### **3.2 FINANCIAL STATEMENTS AND NOTES**

MD&A disclosures are intended to both supplement and complement financial statements.<sup>22</sup>

It may be appropriate for preparers to provide MD&A disclosures to supplement any climate change adaptation or mitigation related assets, revenues, costs or liabilities recognized in financial statements or disclosed in the notes thereto.

In addition, to complement financial statement disclosures, preparers should consider the need for any other MD&A disclosures which would assist investors in understanding the nature and potential impact of climate change adaptation and mitigation issues on both historical financial performance and, importantly, on future cash flows, financial condition and operating results.

### **3.3 OTHER SOURCES**

In addition to considering securities regulators’ requirements and financial statement disclosures, management may find it useful to review other sources to identify potential material disclosures.

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19 National Instrument 51-102F1, Part 2, Item 1.4(g). See also Item 1.2.

20 National Instrument 51-102F1, Part 2, Item 1.12.

21 OSC Staff Notice 51-716 Environmental Reporting February 2008, OSC Staff Notice 51-706, Corporate Finance Branch Report 2007, page 21, Alberta Securities Commission Continuous Disclosure Review Program 2006, February 2007 page 10.

22 Principle 2 CICA MD&A Guidance.

Such sources may include:

- **Industry-Sector Research Papers:** Review reports produced by industry associations and non-government organizations that research the impact of climate change issues on sectors.<sup>23</sup>
- **Carbon-Disclosure Project:** Review responses provided by the company, if applicable, and those of similar companies, to the Carbon Disclosure Project<sup>24</sup> survey or like surveys.
- **Sustainability<sup>25</sup> Reports:** Review sustainability reports issued by the company, if applicable, and those of companies in the same sector, to identify climate change impacts and issues. Sustainability reports are often issued subsequent to regulatory filing dates but may contain material information related to the MD&A reporting period. Companies need to ensure that their disclosure controls and procedures enable such material information to be identified on a timely basis to permit disclosure, if necessary, in the MD&A.
- **Strategic Statements and Plans:** Consider the extent to which climate change impacts and issues have been addressed in business strategies and goals for the year. Identify those internal and external climate change adaptation and mitigation issues and risks that were taken into account in development of the strategy and goals.
- **Enterprise Risk Management Reports:** For those companies that have implemented an enterprise risk management system, consider any climate change adaptation and mitigation risks identified therein.
- **Board Minutes:** Review board and relevant committee<sup>26</sup> agendas, minutes and submissions to identify climate change adaptation and mitigation issues considered by the board in their oversight of strategic planning and risk management.
- **Annual Information Forms:** For companies that prepare annual information forms (non-venture issuers), consider any disclosures contained therein that would be considered material from an MD&A disclosures point of view.
- **Competitors' Disclosures:** Review other companies' MD&A climate change disclosures, especially those of primary competitors.
- **Disclosures of Award-Winning Companies:** Consider the MD&A climate change disclosures of winners of the CICA Corporate Reporting Awards.<sup>27</sup>

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23 e.g. World Resource Institute, Pembina Institute.


24 See [www.cdproject.net](http://www.cdproject.net).

25 Some companies refer to these reports as Corporate Social Responsibility reports or by other similar names.

26 e.g. Environmental, Health and Safety; Risk.

27 see <http://www.cica.ca/1/3/1/index1.shtml>.

- **Analysts' and Investment Research Reports:** Look at analysts' reports on your company and on competitors. Consider obtaining reports produced by investment research houses that specialize in assessing the impact of climate change issues on various industry sectors.
- **Conference or Investor Presentations:** Review questions and discussions at conference or investor presentations about your company or any presentations by companies in the same industry.
- **Prior Period MD&A Disclosures:** Review climate change disclosures made in prior period MD&As to assess the need for updating.



# 4 ORGANIZING AND PRESENTING DISCLOSURES

There is no prescribed format or template for MD&A disclosures. However, preparers need to consider the options for placement of climate change information within an MD&A.

## ***4.1 PLACEMENT OF CLIMATE CHANGE INFORMATION WITHIN THE MD&A***

There are three principal options for presenting climate change information within an MD&A:

- present a separate climate change section
- present as a subheading within the risk section
- intersperse a discussion of climate change issues within various sections of the MD&A, to reflect the linkages between climate change and other aspects of the company's business, such as corporate strategy, capital resources, liquidity, key performance drivers and outlook.

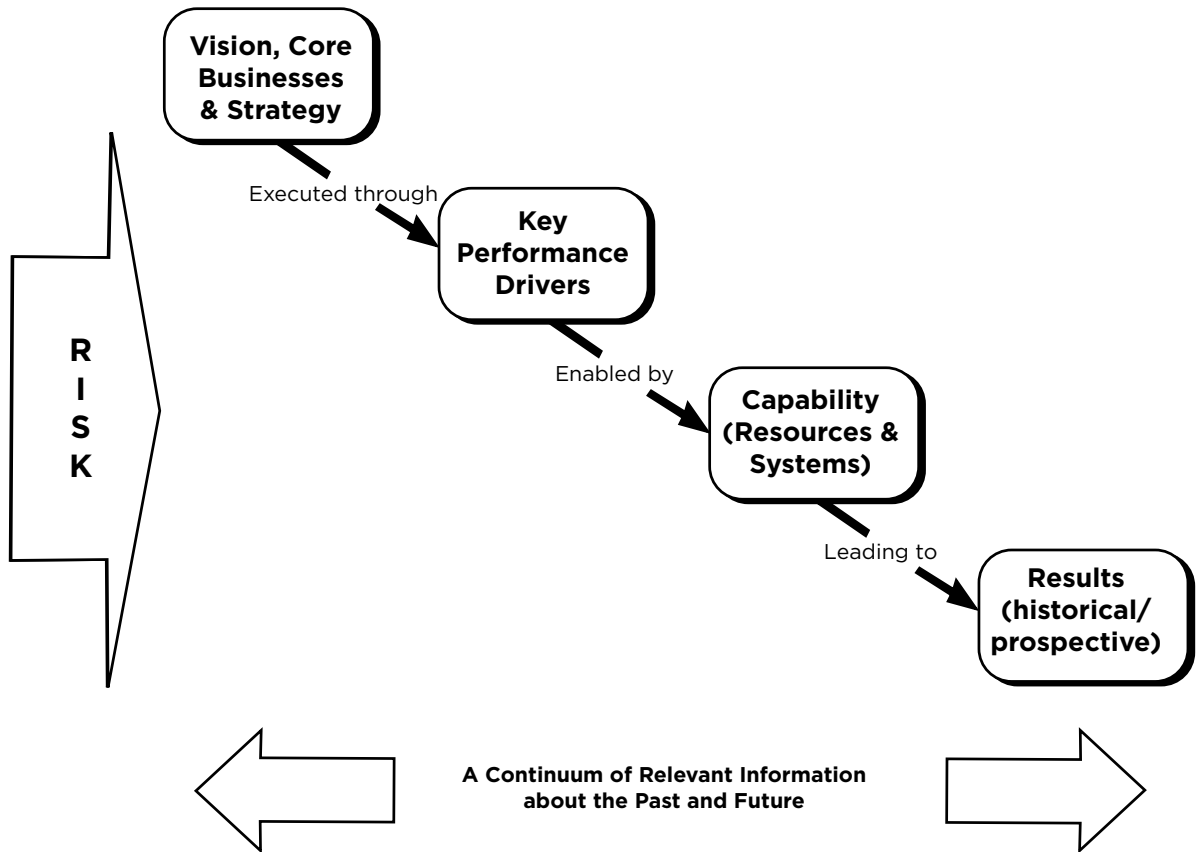
Institutional investors have expressed a preference for interspersing discussion of climate change issues throughout the various sections of an MD&A to demonstrate how climate change issues impact corporate strategy, risk, capital resources, liquidity, key performance drivers and financial performance and outlook. Until climate change reporting is more widely implemented, preparers may choose to discuss the various strategic, risk and financial implications of climate change in a separate climate change section within the MD&A.

## ***4.2 USE OF CICA MD&A DISCLOSURE FRAMEWORK***

Management may find it helpful to use the disclosure framework recommended in the CICA MD&A Guidance<sup>28</sup> as a tool for organizing and presenting climate change information throughout the MD&A. Using the framework, an entity might disclose and discuss climate change issues in relation to strategy, key performance drivers, capabilities, results and risk.

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<sup>28</sup> Paragraph 310.1, Management's Discussion and Analysis: Guidance on Preparation and Disclosure, 2004.



In applying the framework to organize and present climate change disclosures, preparers may refer to Part 2 of this publication to ensure that what investors want to know about climate change has been addressed.



# 5 OVERSEEING THE INTEGRITY OF MD&A DISCLOSURES ABOUT CLIMATE CHANGE

Both management and the board of directors have responsibilities for the reliability and timeliness of corporate disclosures.

## ***5.1 MANAGEMENT RESPONSIBILITIES***

Management is responsible for MD&A disclosures, including those about climate change issues. Management is also responsible for the establishment, implementation and maintenance of appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is complete, reliable and timely. These responsibilities are recognized in CEO and CFO certifications about regulatory reporting and related disclosure controls and procedures.

Following are some general questions that management might consider when doing its review of the adequacy of its proposed MD&A disclosures about climate change:

- How have we determined which climate change issues are material and therefore require disclosure in the MD&A? Have we assessed materiality in qualitative as well as quantitative terms?
- Have we focused on the potential impact of climate change issues on longer-term financial condition, results of operations and cash flows as well as shorter term performance?
- From period to period, is there comparability and consistency in MD&A disclosures about climate change issues?
- Have we ensured consistency of MD&A climate change disclosures with those in other public reports (e.g. sustainability reports, responses to surveys such as the Carbon Disclosure Project, press releases)?

- Have we implemented appropriate systems, procedures and controls to enable timely, complete and reliable reporting of climate change information in the MD&A?
- Have we presented disclosures about climate change issues in plain language, with candour and without jargon?

### **5.2 BOARD OF DIRECTORS' RESPONSIBILITIES**

Directors are responsible for reviewing and approving all MD&A disclosures<sup>29</sup>. In discharging their responsibilities for the integrity of MD&A disclosures about climate change, directors may refer to the CICA's *20 Questions* series and other publications<sup>30</sup>.

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29 Securities regulators permit boards to delegate to audit committees the review and approval of interim MD&As.

30 *20 Questions Directors Should Ask About MD&A* (second edition 2008) and *Executive Briefing Climate Change and Related Disclosures*, 2008



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