

Carbon Emission Transparency: The Good News and the Bad

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Data Transparency Debate

At the recent Environmental Finance Conference (*The Future of ESG Data*) one theme in particular was prominent; the transparency of carbon emissions data.

Asset owners and managers were vocal about wanting to dive more deeply into emissions data and to look beyond headline ESG ratings, rankings and scores.

This search for greater transparency is an important and a welcome development in our view and this Insights Briefing is our response to the call for greater transparency with regards to emissions data reporting.

The Transparency debate: key considerations

There are three areas where a deeper understanding of emissions data is essential:

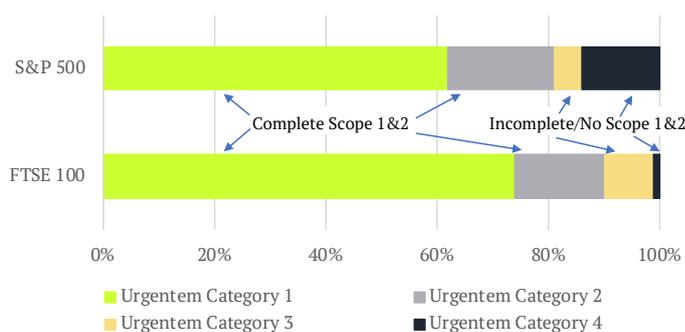
- 1) Identifying the origin of the data (reported or modelled)
- 2) Understanding the methodology and approach used to collect and infer data.
- 3) Last, but by no means least, one of the most important factors, often overlooked when analysing emissions data; the completeness of data, especially when data has been aggregated.

Carbon Emissions Data Reporting: what’s really going on?

While there is a clear trend towards companies globally increasingly reporting some degree of emissions data (either voluntarily or via regulation), investors need to be aware of the relative completeness of the data, especially when making comparisons. *All may not be as it seems!*

First the Good News: Improving Scope 1&2 Reporting

Figure 1: S&P 500 and FTSE100 - % of Companies Reporting Complete Scope 1&2 Data



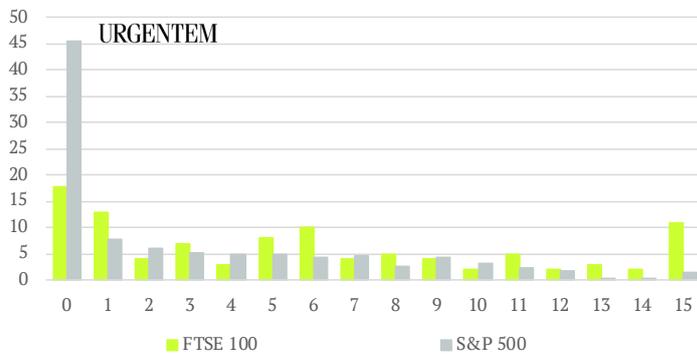
Source: Urgentem. See Appendix for Urgentem Data Disclosure Category key.

There is some good news. Our analysis suggests that data reporting is improving, at least when it comes to Scope 1 and 2. The improvement in Scope 1 and 2 is being driven by larger companies. Our analysis shows that 90% of the FTSE100 companies are now reporting a full set of Scope 1 and 2 data (Urgentem Data Disclosure Categories 1 and 2). For the S&P 500 we found that 81% of companies are reporting a full set of Scope 1 & 2 data. *See figure 1.*

The Bad News: The Scope 3 Challenge

However, Scope 3 is a different story. While there are signs for encouragement with regards Scope 1 and 2, the availability of Scope 3 data remains challenged. Our analysis finds that just over 80% of FTSE companies report at least one category of Scope 3 (*see figure 4 for a full list of categories*), but only 54% of S&P 500 companies report at least one Scope 3 category. *See figure 2.*

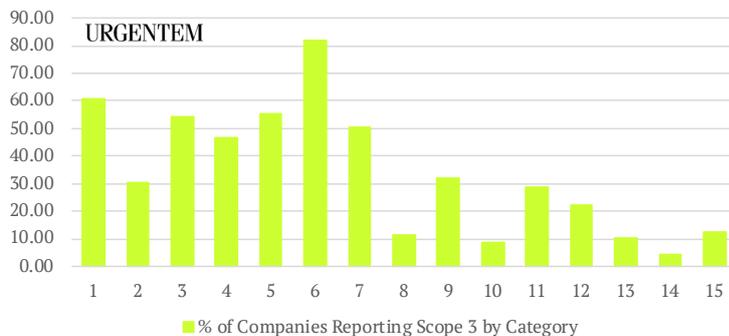
Figure 2: % of Scope 3 Category Disclosure – FTSE100 and S&P 500



Source: Urgentem

Examination across all 15 categories rather than just taking an aggregate Scope 3 reading is essential in our view. Indeed, we note a tendency for companies to be selective with the categories they report. The easy to report categories, such as business travel (category 6) are among the most common categories reported, we have found (*see figure 3*). Overall, the average (mean) reporting rate of companies reporting at least one category is five of the 15 Scope 3 categories, according to our analysis.

Figure 3: % of Companies Reporting Scope 3 by Category



Source: Urgentem

Indeed, our analysis of Scope 3 disclosures from the companies we directly analyse globally, which report at least one Scope 3 category, finds that 82% of companies report emissions for Business Travel, representing 16% of all Scope 3 disclosures across all categories (see figures 3 & 4). This is by far the highest reported category in terms of the number of companies disclosing emissions. Our analysis found that the least reported area within Scope 3 is category 14 (Franchises), followed by category 10 (Processing of Sold Products).

Figure 4: Up Stream Categories Represent Majority of Scope 3 Disclosures

Scope 3 Categories		% of Disclosures	
Up Stream Categories	01 Purchased goods and services	11.97	76.85
	02 Capital goods	6.01	
	03 Fuel- and energy-related activities	10.68	
	04 Upstream transportation and distribution	9.11	
	05 Waste generated in operations	10.87	
	06 Business travel	16.08	
	07 Employee commuting	9.92	
	08 Upstream leased assets	2.21	
Down Stream Categories	09 Downstream transportation and distribution	6.30	23.15
	10 Processing of sold products	1.65	
	11 Use of sold products	5.63	
	12 End-of-life treatment of sold products	4.32	
	13 Downstream leased assets	2.00	
	14 Franchises	0.84	
	15 Investments	2.40	

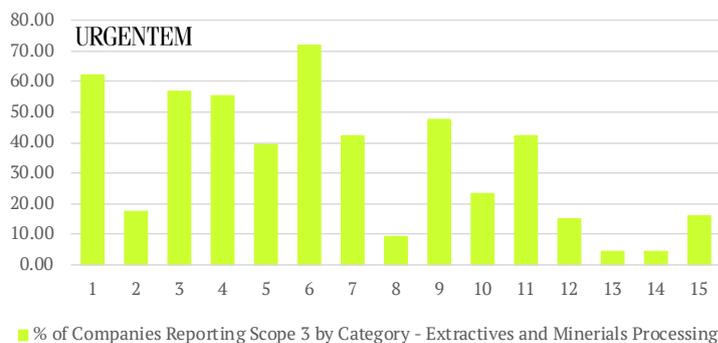
Source: Urgentem

Overall, we found there was a higher degree of disclosure in the upstream categories compared to the downstream categories. Our analysis shows that three quarters of Scope 3 emissions disclosures from our universe of coverage were for upstream categories. See Figure 4.

The relevance of each category to particular companies, along with ease of reporting may explain some of the discrepancies and uneven distribution of disclosures across categories.

However, from our analysis we also note low reporting rates for some of the most important categories within any given sector. For the industrial sectors this could include category 11, Use of Sold Products and for the financial industry category 15, Investments. We note that both categories 11 and 15 of Scope 3 have relatively low reporting rates.

Figure 5: Extractives and Minerals Processing - % Scope 3 Reporting by Category



Source: Urgentem

Indeed, analysing Scope 3 disclosures by SASB SIC Sector Classifications highlights some interesting patterns. For example, within the Extractives and Minerals Processing sector, while over 70% of companies that reported at least one Scope 3 category disclosed emissions for Business Travel (category 6), only 42% make a disclosure for category 11, Use of Sold Product. *See figure 6.*

To put the relative importance of these two categories for the Extractives and Minerals Processing sector into context, it is worth noting where companies do report for both, Use of Sold Products can represent over 85% of total emissions, while Business Travel can account for as little as a tiny fraction of 1% of total emissions.

Conclusion: The devil is in the detail!

Having this level of understanding and transparency is especially important when comparing companies. Two companies in the same sector may have reported very different Scope 3 readings. Deeper analysis may reveal they have reported very different Scope 3 categories.

It is our belief that investors need this level of transparency regarding the relative completeness of the data to make effective comparisons of company emissions.

Appendix: Urgentem’s transparent approach to emissions data

Figure 6: Urgentem Disclosure Categories

Urgentem Emissions Data Disclosure Categories	
Category 1	Public, complete Scope 1 and 2 data, third-party assurance.
Category 2	Public, complete Scope 1 and 2 data, no third-party assurance.
Category 3	Incomplete Scope 1 and 2 data, no third-party assurance.
Category 4	No public data.

Source: Urgentem

When drilling down into reported data, it is essential to be aware of the completeness of the data set, with any gaps highlighted.

At Urgentem all our emissions data undergo a comprehensive screening, filtering and assessment process. A company needs to report Scope 1 and 2 emissions covering at least 95% of its operations for this data to be considered as complete.

The data team at Urgentem then uses models to fill any gaps, still providing full transparency as well as applying a disclosure category (*see figure 6*). As for Scope 3, Urgentem provides a detailed analysis of all 15 categories for all companies covered.

To provide full transparency our data team reports which Scope 3 categories have been reported for all companies along with details of how any gaps in the reporting are filled.

How can we help?

Urgentem’s data and Element6™ Climate Risk Platform: info@urgentem.net

Book an Element6™ demo: demo@urgentem.net

More information can be found at www.urgentem.net