

Improved quality can relieve the burden of green reporting

Many companies are complaining about the burden of increased sustainability reporting, but there are no signs of it diminishing. This problem has several dimensions and needs to be taken seriously. A study of the world's biggest oil companies shows, for example, that their current climate scenario analyses are of little value, and are difficult to use in investments and corporate governance. The solution is greater coordination, but also higher quality.

A wave of regulation to increase transparency in sustainability issues is sweeping the world, and the requirements are not going to decrease. In the past month, the EU has started to roll out ordinances to define sustainability and to increase reporting, and investors have been contributing for several years through owner initiatives like Climate Action100+.

One framework that has garnered a lot of support in just a few years is the TCFD (Task Force for Climate-Related Financial Disclosures), where climate scenarios have a central role. The Swedish national pension fund, AP7, commissioned the UK-based Trove Research to carry out an analysis of how 14 of the world's biggest oil companies' report on climate scenarios. The oil sector is one of the most crucial industries in the transition of society, but the analysis shows that only four of 14 report in accordance with TCFD recommendations. Over a third do not report at all.

However, a bigger problem is that the climate scenarios differ greatly, so have limited value when basic assumptions are not reported. Key assumptions need to be identified for each sector so that the scenarios can be compared and assessed. The oil sector considers issues such as expected demand for energy, oil, electricity, and electric cars, but also costs of fossil-free alternatives and CCS technology (carbon capture and storage).

The study shows that the time perspective is important. The scenarios need to extend as far as 2050 if they are to give a useful description of future prospects. Companies such as Chevron and Conoco publish for example 2-degree scenarios, but still draw the conclusion that demand for oil will remain robust until at least 2040, so a transition to carbon-efficient energy sources is not needed.

Reporting on a company's projected development under different scenarios is an excellent concept, but the idea has not really taken off yet. The reporting initiative has got stuck halfway. The companies feel that reporting has become a burden, while the investors find it difficult to use the information because it is too superficial, general, and difficult to compare. Quite simply, the quality of reporting is too low for it to be meaningful.

In the situation we are in, there is only one way forward. We must increase the value of reporting.

In the coming years, AP7 will work to both increase reporting among the laggards and increase the value of the scenario analyses to provide better information for investments and corporate governance. We have a high level of ambition with regard to coordination, to ensure that the burden on companies is not increased any more than necessary.

One crucial success factor will be international collaboration. Global collaboration is the only way to curb the variety of local benchmarks and evaluation alternatives. This will benefit those companies with the greatest reporting burden – large international companies with significant sustainability risks.

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In this type of global investor collaboration, extensive consultation is an important component, involving the business community, academia, and organisations in the process. This will ensure that the results are both thorough and well supported.

One current example is the global framework for responsible corporate climate lobbying with which AP7 has been involved for a number of years. The framework will be presented in the summer. The development has been driven by a constellation involving key actors such as IIGCC (The Institutional Investors Group on Climate Change), Ceres in the US, and the London School of Economics. The framework will affect the work in ClimateAction100+, which is directed towards the 167 companies with the greatest emissions, so global impact will be immediate.

The market requires information about companies' sustainability risks and their strategies for managing these risks. If this information is provided, then the pricing mechanism works. Companies that are well positioned in relation to the current societal transition will be favoured, while the risks will become obvious for those companies that lack awareness or strategies. All this is reflected in the valuation of the companies. Investors also need more information to enable them to take responsibility as active owners, which is perhaps the most important contribution for achieving climate results in the real economy.

The requirement for increased reporting will not disappear. However, this development could have a potential upside for the companies too, regardless of whether TCFD or other initiatives are involved. Effective existing initiatives can be better coordinated to minimise double reporting. Better and more value-generating reporting can replace older forms, and the market can reward those that deserve it when the quality of information is improved.

Greater reporting has no intrinsic value, but better reporting has.

Richard Gröttheim, CEO AP7

Johan Florén, Head of Communications and Corporate Governance AP7