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Governance of Sustainability Dialogue - *From Climate Change to Social Change*

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Plenary 2: Climate-related Reporting: Progress and Priorities

- **Hannah Armitage. Project Director, Financial Reporting Lab, Financial Reporting Council, UK**
- **Marion de Marcillac, Head of Climate Solutions, MSCI, France**
- **Marian Macindoe, Head of ESG Strategy & Engagement, Uber Technologies, US**
- **Chair, Tiffany Grabski, Senior Specialist, Sustainable Stock Exchanges (SSE) Initiative, Switzerland**

Tiffany Grabski:
The previous session looked at the underlying changes needed within organisations to make economic prosperity long-lasting, more socially inclusive, and less dependent on exploitation of finite resources and the natural environment. From there, we'd like to continue on how we communicate that accountability and strategy.

Climate-related reporting is an ever-evolving topic, but particularly right now, with the Task Force on Climate Related Financial Disclosures (TCFD), soon releasing an update of its Metrics, Targets and Transition Plan Guidance. There are more than 2,000 companies representing over $20 trillion in market cap, publicly announcing support for the recommendations, including global financial firms with assets over $178 trillion.

We have many other historical movements, from corporations and financial institutions, e.g., commitments to eradication of emissions through Race to Zero and forthcoming Glasgow Financial Alliance for Net Zero, bringing together worldwide organisations toward a common objective of reducing emissions to help achieve the 1.5° target set at the Paris Agreement.

How do we communicate our organisations' changes in a useful and comparable way? Where we have, we come from, where do we need to go and what do we need to get there? We have the perfect panellists to discuss. Marion de Marcillac, Executive Director and Business Manager for ESG Climate Change Solutions and ESG Controversies at MSCI, will be giving an overview of where we came from. With nearly 15 years in-depth responsible investment experience, joining MSCI in October 2019 from EIRIS, having previously worked at Eurosif, as Head of Research.

Hannah Armitage, of the Financial Reporting Council's Financial Reporting lab, will provide a regulatory perspective, setting the stage for the future of climate disclosure. She's led FRC's climate change work on climate and workforce related reporting and performance metrics. She was previously on FRC's Corporate Governance Team, working on reviews of the Stewardship Code and UK Corporate Governance Code.

Marian Macindoe, Head of ESG Strategy and Engagement at Uber Technologies, will discuss the implications for our future. She engages with investors and major customers on Uber's material ESG issues. She leads ESG strategy and reporting, including response to TCFD. Previously, she was Director of Investment Stewardship at Charles Schwab, following seven years as investor and ESG specialist with Chevron.

Marion, how has evolution of climate reporting reached where we are currently?

Marion de Marcillac:
One trend is disclosure levels are improving. A TCFD paper published recently, alongside their Consultation on Climate Metrics, with data input from MSCI, shows ACWI IMI, nearly 9,000, small/mid/large cap, developed in emerging markets. Scope One and Two shows numbers improving gradually, by 2-3% annually. 3,400 companies currently disclose Scope One and Two emissions, approximately 38%. Those reporting are generally the largest emitters, who may be regulated for this reason. Statistically, the contribution of the footprint shows ¾ of emission data is reported across all ACWI IMI.

The number differs, depending on the universe observed. Smaller, more emerging companies, have lower levels of disclosure. Of the 1,600 largest worldwide companies, the Scope One/Two level would be around 70%.

Scope Three emission captures the remainder of the value chain, not direct or electricity emissions, anything beyond the boundary of a company, which is more challenging to report. Downstream would be emission relating to sales of products, upstream would be supply chain. The third bar shows 22% of companies disclose some level of emission, which improves every year, last year being 18%. Scope Three data is highly heterogeneous and companies don't often specify emissions categories covered. Greenhouse Gas Protocol defines 15 categories, some upstream, some downstream.

The vagueness of disclosure causes comparative issues, often varying widely from year to year. One insurance company reported on some categories, but not 15 (investment), important in insurance, reported it the following year, recording high numbers, then didn't report again.

Each sector has different exposure to either Scope One, Two or Three. There are three sectors: utilities, energy, materials, concentrating significant levels of emission exposure. Scope three has challenges but is important as a value chain associated risk signal. MSCI push for better disclosure, but meanwhile, we've made progress, introducing the Scope Three estimation model, granular for all scopes, embedded in our risk model.

A key element for forward-looking trajectory is decarbonisation targets. A small proportion of companies are disclosing emission reduction targets. This slide records target disclosures for a small universe, approximately 2,500 companies, the orange line showing the number self-declared as Net Zero target. It's important to understand whether targets focus on the majority of emissions. Are the emission scopes covering the right ones, and which activities and geographies are covered? Different business activities are associated with the prevalence of different scopes of emissions. Electric utility will typically reside within Scope One emission, while oil and gas or automobile manufacture would typically fall within Scope Three. Ideally, targets cover all scopes. If not, it's meaningful if covering the most predominant scope for the company.

65% of targets in utilities admitted focusing on Scope One emission, the sector's dominant scope, 44% in the blue bar. Some sectors have misalignments. In energy, 4th row down, 87% of emissions are Scope Three, but only 18% of targets. In financial, at the bottom, 90% of emissions are Scope Three, but only 16% of targets.

Another issue with target data is disclosure varies significantly, including target year, length of emission reduction period, scope, boundaries of activities, metric type: intensity target, activity-based intensity, absolute. In our examples, targets are defined very differently. Compiling consistent dataset on target has been very challenging, creating shortage of high coverage and quality datasets.

MSCI recently released a paper proposing a framework to access target data, breaking down corporate Net Zero commitment targets (MSCI website). We observed Apple and AGL, providing normalised data to compare targets. Is the target comprehensive, covering which scope? Is the ambition enough to align with Net Zero trajectories? What is the feasibility, based on qualitative assessment, e.g., track record of meeting previous target? This new framework should help companies decide what data and information is needed for investors to use.

Disclosure has proven sensitive to investor expectations. Rates are higher for some rate industries, highly sensitive to investor climate disclosure demands (e.g., utilities). Some sectors (consumer goods/services) face lower demand on disclosure from investors. Smaller companies face higher barriers, as cost and disclosure rates differ across geographies. Emerging markets face less pressure and capacity to execute disclosure. The compounding impacts of this mean data limitations affect portfolios in particular asset classes or geographies.

Tiffany Grabski:
Great overview, MSCI data is essential to trendsetting. TCSD has noted we can't change what we report yearly, because we must compare historical data when moving forward, moving into trends, from static data. Many initiatives work towards net emissions reductions, but we have some way to go with targets, in general.

Marian, could you give us an insight on how you do these targets?

Marian Macindoe:
We've come so far. At Chevron, we had excellent climate-related report, data collection, quality assurance, emission reducing strategies. We had no company-wide targets but had strategies and world class ESG reporting. In 2011, the Executive Team acknowledged climate change, fully accepting the anthropogenic nature, caused by burning fossil fuels. We reported this, because back then, corporate climate change deniers were common. Investors asked us to accept the science. From there, we've come a long way, as Marion said.

At Glass Lewis, I analysed all shareholder proposals. In 2007, there were 43 on climate change, from eight in 2001, and one received shareholder support, 40%, a significant vote return. We've made no progress in 15 years. It's like we're just starting, but it's been percolating so long.

This May, the landmark proxy votes, Exxon shareholders voted to appoint three activist, climate conscious, board members, passing a proposal on Scope Three emissions. Shell had a court order to reduce emissions. From these trends, reporting and commitments, the pace of change is slow, but still a dramatic shift to where we are. We need to thank investors and the governance community for that.

Tiffany Grabski:
For clarity on emissions, we were asked if Scope Three is someone else's One and Two? Marion, why are with Scope Three emissions so complicated to report on?

Marion de Marcillac:
Scope One are company's direct emissions. Scope Two are electricity purchase emissions, used to produce your goods. Scope Three is everything else, e.g., employee commuting, goods to manufacture cars, and downstream is associated to use of product sold. In car manufacture, 80% of total emissions are from end clients on the road, which you can't control. You can control the type of motor and which steel is used in production. It's difficult to track, especially with supply chains. Dealing with multiple counting is an issue for investors. There are ways to deal with this, which companies are now increasingly doing.

Tiffany Grabski:
Hannah, how do you see the future? Will these trends continue or how should we change trends to improve our processes?

Hannah Armitage:
These trends will continue. There is much happening globally in regulatory terms. In the UK we're looking into actively introducing TCFD reporting. Two consultations were published yesterday. The issue has been around for some time, but TCFD has acted as a catalyst for aligning conversations, specifically financial risks, adding clarification on climate-related issues and future practices.

TCFD is a framework. There are different levels of approaches for enforcement and integration into requirements of companies, and companies vary greatly in their choice of reporting. We encourage consistent information, but we have some way to go in what we observe from reporting provided. This is both regulatory from questions around information reported, the basis for this, the estimation used, and Scope Three complications.

In future, I see further integration in climate-related reporting. It's a big issue for companies and investors and will grow. Companies are struggling with what's material to be reported for them, business model and strategy, and where to report. Targets and definitions is also key. In the UK, last year, we carried out a climate change thematic, reviewing Auditors, UK requirements on company reporting, investor needs, governance approaches, roles of UK professional associations and how they encourage better climate-related knowledge. In the sample reports reviewed, many provided targets and discussed their desire to reach Net Zero, with little information on what this meant for the companies regarding timeframes, changes, what is covered, what is meant. We need to change this as reporting develops.

Increased consideration of these issues within financial statements is key. In most countries the financial statements expectation is material issues will be reported in the financial statements. In the UK, these considerations lagged behind the narrative reporting. Where companies started discussing climate-related considerations, they didn't show their considerations within financial statements aspects. Questions around targets, definitions and reporting need to be asked, and we must continue developing requirements on financial statements.

In the near future, there will be much more regulatory change. The UK has done much around this, moving towards COP. There has been activity in the EU and SEC and discussions regarding an Integrated Sustainability Standards Board, a climate-related standard being primary. Much will be required from companies and it's exciting to consider these issues. Investor attention and demand will continue.

The FRC lab did our first climate-related reporting project in 2019, with investor involvement more than double the standard. It's a huge area of interest. Investors don't always have answers, or know what they want, but they want more and to determine people's issues and the implications. In future, there will be more reporting, requirements, particularly around Scope Three, as we envision the outcomes from company and public policy perspectives. Companies will be pushed to provide better reporting. This affects expectations for Auditors, assurance and verification and controls and governance within companies on appropriate information for strategic decision-making and reporting onward to markets and other stakeholders. It's also increasingly important that we ask for more action, alongside reporting. Targets should link to Net Zero. If a company's target is to decrease

greenhouse gas emissions, what do they mean, how will they do it, what does it look like? What changes will result and what is the story of how it will be achieved? A much larger scale change is needed now than just targets, with more reporting, which many investors increasingly demand.

Tiffany Grabski:
There's much to do, but we're on the right path. We've been asked if we need a TCFD 2.0, or if uniform TCFD reporting worldwide could be a game changer. So, voluntary versus mandatory, how much do we need a regulatory response to this? Can we depend on uniform reporting globally, across sectors, without regulation, or do we need regulation to provide consistency?

Hannah Armitage:
Many sectors work actively in this area. In our climate change thematic, with reporting, specific sectors weren't ahead of others. If the companies cared about issues, they reported effectively. Despite sector-based progress, it doesn't necessarily run through entire sectors. In some sectors effective reporting on such issues is key. From a regulatory perspective, we've been supportive of TCFD specific disclosure, coming into requirements for UK company reporting, and our markets regulator introducing them into the listing rules. We need greater standardisation. An international solution is the future, predominantly using existing things. For climate, TCFD provides a good base and people are starting to report against it, so the momentum and information available can be used to push that further.

Further regulation is needed. There'll be no consistency in and across sectors without stronger regulatory response, overall. Some areas may require more proportionality, depending on specific sector types, but ultimately, more international regulation will be the only way to appropriately address the issue.

Tiffany Grabski: Marian or Marion, your insights or perspectives on regulation versus voluntary?

Marion de Marcillac:
On TCFD 2.0, the TFCD is currently consulting regarding further framework clarification, due on July 7th. Some metrics requirements have been clarified, which is positive. They've requested more disclosure on transition plans, including targets and how to reach them, which is also positive. The TCFD is a great framework, standardising what to disclose regarding climate risk, but the framework alone may not be sufficient. The regulation has pushed the envelope faster, which we vital. The regulation can respond to the sense of urgency.

Marian Macindoe:
Uber supports principles based TCFD reporting and wrote a comment letter to the SEC's request for comments on climate change reporting. I agree with Hannah, we're moving towards standardised, harmonised reporting, with more, higher quality, data. More people will contact companies and investors on LinkedIn, with providers offering solutions to figure out how to do this. With this evolution, climate reporting is a means to an end, not an end in itself. Decision useful is the critical piece, which reminds me of the CDP evolution, with the frog in the boiling water. In the beginning, your score was how good you were at disclosing, and getting better disclosure is where a lot of the conversation is. This data is not for recreational use, but to help investors, regulators, consumers, to differentiate among companies and policy options, to help Executives make decisions about their strengths and vulnerabilities. Employees also make decisions about their company ethos and vision. Data will be better, more plentiful and acted upon meaningfully.

Tiffany Grabski:
We've been asked in regards to 'zero washing', are investors pushing this less so, or quicker, than the regulatory push? How do we ensure standards are kept at the required level? If we disclose Net Zero business models and transition plans, how do we ensure it's not zero washing and it's followed through? With backward looking data and setting targets that come with historical data, how do we ensure we follow through on targets?

Marian Macindoe:
MSCI strive to analyse the data disclosed and compare, providing assessments on whether it is doable, enough, etc. It's a very fast, evolving field and things are not currently set in stone. Targets, currently, are very confusing. We need more standardisation, which requires stakeholder collaboration for emerging standards, as pushed by TCFD. Transparent and comparable data is very important, and more work must be done.

Tiffany Grabski:
Regarding further integration, focusing more on business strategy than climate specific targets, Hannah, your comments? You see a more integrated form of reporting. Should our guidance, such as TCFD, move towards a more holistic picture?

Hannah Armitage:
It's obviously a question. I'm not sure TCFD don't do that at a higher level. It came up a lot in our climate thematic. We looked at companies more likely to be affected, and separately, at a really wide sample. For those in the wide sample, there are different challenges and business models will change. Even those not in utilities will face climate-related considerations, from manufacturing locations, change to supply

chains, etc. The key is we require climate-related data, but for investor insight, what are you doing about what you know? What will your future business model look like? How resilient is that in different climate-related pathways? How will you ensure its utmost resilience? I'm not sure if TCFD implies you shouldn't do that, so it may not be only their role, as a framework, to do that, but it is the kind of reporting and focus required for investor insights, not solely company emissions.

Tiffany Grabski:
How do we encourage more and better climate disclosure in emerging markets? Marion, you will have MSCI data and insight into emerging markets. Can you touch on what we're missing here?

Marion de Marcillac:
One aspect is expectation and tension from investors. More demand from investors could be another pressure point towards action. Guidance and framework is required to ensure standardised participation.

Tiffany Grabski:
Marian, you've had a breadth of experience on how we implement this within corporations. What is needed to further improve current practices and what support do corporates need to move forward?

Marian Macindoe:
The world needs Zero by 2050. Climate change reporting will help with this. In both my internal and external discussions, I start by saying, "Climate change is coming." The pandemic has taught us we can't ignore known catastrophes. In California last year, some days the sun didn't come out and this year doesn't look much better. It's currently over 106° in parts of the Bay Area, a tinder box. People found humour in the pandemic and wildfires, sending around a "Pantone end of days orange" colour swatch. If you held it up, it was the colour of the sky. Investors and communities can't diversity away from that. It's critical to your business, even if you don't believe it. We're all in this together. Our CEO says, "Climate is a team sport." Uber work to build a platform acknowledging this, and business resilient to that in both physical and transition impact, as we transition to a lower carbon economy.

As the world's largest mobility platform, our responsibility is to aggressively tackle the issue. Transportation is a huge contributor to greenhouse gas emissions and Uber must be part of the solution. Any issuer should now be thinking about being part of the solution. Whatever your role is in this ecosystem, you have a role in the solution. The future for transportation must be shared. Cars are woefully underutilised. Car ownership is terribly inefficient. They must move from fossil fuels to electric. Transportation should be multimodal: public, sharing economy, micromobility, walking, etc. We are committed to fully electrifying our rides platform by 2030 in US, Canada, Europe, and globally by 2040, and Net Zero across all scopes by 2040. Our strategy isn't primarily reliant on carbon offsets, but in some areas, we can't electrify or reduce emissions on our own. There's a way to go.

We're building more green products, delivering low and no emissions mobility products. Uber Green is now available in 1,500 cities, but unfortunately, we don't own the cars. We must help drivers transition to electric. TCFD 2.0 includes some element of just transition. Ultimately, the choice to go electric must be better for the planet, drivers, riders, cheaper to buy and operate, more reliable. Currently, electric vehicles are more expensive to buy and operate. We're directing $800 million to help drivers go green, incentives on EV purchase savings, charging, direct payments. In US, with battery electric vehicles, sometimes hybrid, $1 is paid for every Uber Green trip. We need an infrastructure allowing for increase in electrified miles, rather than number of vehicles, because people have second or third cars charging in their garage. Electrification should be focused on dense, urban areas, where commercial drivers live and operate.

We bought route maps. We're working on integrating transit and micromobility, but a key pillar is transparency, with climate change related reporting. Last year, Uber released a report on Scope Three emissions, the only company using real-world data in US and Canada, on 4 billion rides. GPS co-ordinates were sent every 1-2 seconds from thousands of vehicles, different speeds and engine types, widely varying terrain: flat, urban, mountainous, winding, suburban neighbourhood, matched to a map, verified by a third party. We then calculated and reported Scope Three emissions, including intensity metrics.

We're now reporting to TCFD. Uber wrote a letter to SEC supporting SASB and TCFD frameworks, calling for mandatory materiality assessments, the backbone of meaningful ESG programmes. TCFD ask companies to describe governance, who makes climate change decisions and with what information? Strategy is how you're managing the issue, risk management, how you look around corners and identify and mitigate risks in your business, and metrics and targets, how you know you're doing a good job, internally, as well as externally. How do you know how to get better?

We need a harmonised climate change framework for standardisation, comparability and reliability. Investors and other stakeholders want this. It helps us streamline our reporting. You need to answer questions on governance, strategy, risk management, metrics and targets about all material issues. If you can't, get on a shaping curve. Many companies and investors have already invested considerable resources to report frameworks voluntarily. Frameworks aren't perfect. Uber doesn't provide full TCFD or SASB reporting and we might never do, but we're working on it, answering questions and having internal conversations. This year we had TCFD workshops, with people from across the company, discussing how climate change risks and opportunities are manifesting in people function, finance, communications or regulatory risks, and our opportunities through the Product Team, mobility, delivery and framework. If companies aren't having this conversation, they need to.

The policy environment should enable this. Should it be mandatory in all markets? There are smaller and larger issuers, in different positions, who may have different shaping curves for their needs. Internal understanding of companies' positions is really important, and ensuring board and management engagement are important.

You need at least the beginnings to enable you to answer the questions on decision-makers, how to look around corners and to know how you're doing.

Tiffany Grabski:
Harmonisation is key. I like the motto, "Climate is a team sport." To what extent do you work with other organisations to make this more collective, and what advice would you give anyone wanting to follow Uber's lead and get involved?

Marian Macindoe:
Partnerships are key to our strategy. We can't reduce our emissions alone. We must rely on enabling policy environments. We must find incentives for Uber drivers to transition to electric. We need policy environments that encourage improvement of battery technology. We're tackling how Uber is affecting climate change, but how is climate change affecting Uber? Those are both covered in TCFD. We've joined the Science Based Targets Initiative and started our TCFD reporting journey and joined the Climate Pledge, Net Zero by 2040 across all scopes. We partner with electric vehicle manufacturers and infrastructure, vehicle charging. It's signalling to get the economic flywheel moving in our cities, say what we're willing to do and ask for help, the climate is a team sport point.

Tiffany Grabski:
Any other insights or advice on how we can involve others in this journey?

Marion de Marcillac:
There are many initiatives and alliances. In finance, the Net Zero Asset Owner Alliance, the Asset Manager Alliance and Bank Alliance are very good for sharing knowledge and working collectively.

Hannah Armitage:
No-one, particularly regulators, has a perfect answer. We're starting to get a better picture of the building blocks, but from our lab engagements and regulatory perspective, the more we discuss investor role and considering the issue to be material to a broad range of, or maybe all, companies, could be really helpful. Many corporate entities view their sector as having no issue within the timeframes stated. In fact, decisions made today will have effects and everyone needs to think about it. Hearing investors' interest and desire for more is very helpful here.

Tiffany Grabski:
How important is your engagement with investors and their role?

Marian Macindoe:
I've spent 16 years at the intersection of investors and ESG. At a recent networking event, someone asked why ESG is much more important now. The answer is investors, who have a particularly important role in climate change, they can't diversify away from it. Your individual business may not be enormously vulnerable regarding climate change. You may not be a Silicon Valley tech company, with an enormous emissions impact. Investors and regulators need information from everyone. Owners of broad-based swaths of markets globally must ask for the information, regardless of whether the companies feel it relevant, to make systemic decisions. The financial sector is uniquely placed to help companies, governments and regulators move in this direction.

We engage with investors constantly and climate change, diversity and anti-racism commitments routinely arise whoever we talk with. They ask what our Net Zero by 2040 pledge means and for the data. It's working as it should, people can ask for proof. Accountability is a really important role for investors.

Tiffany Grabski:
That comes back to the role investors play in ensuring we don't have Zero washing, greenwashing, or bluewashing.

Marian Macindoe:
Zero washing is awful, but it is a great start. If companies say they're going to be Zero, at some point someone will want you to show us, so it's better than saying nothing. Companies acknowledge they want to do it and move in that direction, then put science-based targets and interim goals in place. Zero is the endgame. Bill Gates's podcast on Kara Swisher's Sway, talking about why zero must be the goal, interim goals are important, but without concentrating on zero, you'll only focus on low hanging fruit.