Towards net zero

How the world's largest companies report on climate risk and net zero transition

EXECUTIVE SUMMARY

KPMG IMPACT
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Contents

About the lead authors

This research has been conducted by KPMG IMPACT, a newly-established initiative of KPMG firms. KPMG IMPACT brings together professionals and subject matter experts from across KPMG's global organization to support the delivery of the United Nations Sustainable Development Goals (SDGs).

The authors of this report work together as leaders of the KPMG IMPACT initiative alongside their KPMG firm roles and responsibilities.

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Readers of this study will learn

01 **What good climate risk and net zero reporting looks like**

02 **How the world's largest companies are performing**

03 **Which companies are doing it well and what they can teach others**

Foreword: What gets measured gets managed

As the old saying goes, what gets measured gets managed. Markets need the right information to operate effectively. This is particularly true as the transition to a net zero economy begins in earnest, affecting virtually every company in every sector. Now is the time to improve the quantity, quality and comparability of climate disclosures. Today's climate crisis demands that we re-allocate global capital to manage risks and seize transition opportunities across all of our economies.

The calls for comprehensive climate disclosures are growing ever louder. Climate Action 100+ (an investor group of 500 firms with over US$47tn in assets under management) recently wrote to the world's 160 largest companies, to demand they publish strategies to reduce emissions by 45 percent by 2030 and to reach net zero by 2050. This is only the latest in a long list of investor initiatives to encourage the reporting of what is widely viewed as a material risk, and will increasingly be seen as a major opportunity.

The building blocks for a future global framework are already in place. The Taskforce for Climate-related Financial Disclosures (TCFD) has gathered huge and rapidly growing international support since it was established in 2015. Supporters control balance sheets totalling over US$150 trillion and include all the world's systemically important banks, its largest asset managers, insurers and pension funds. Additionally, an alliance of the leading climate disclosure standard setters - which are already interoperable with the overarching TCFD framework – facilitated by the Impact Management Project, have come together to build the technical underpinning for a single global sustainability reporting architecture.

This timely report reveals the dramatic strides made in climate disclosure. In the 5 years since TCFD was established, more than half of the world's 250 largest companies publicly acknowledge climate change as a financial risk.

The report also exposes, however, the significant gaps that exist in reporting, particularly around scenario analysis and forward-looking metrics, and it rightly emphasises the need for rapid improvement in both the quantity and quality of disclosure.

To resolve these gaps, action is needed across the private and public spheres. First, every company needs to take action and establish (or further develop) climate reporting that aligns with all 11 of the TCFD's recommendations. There is a wealth of support available – from TCFD sector specific forums to published guidance – for companies embarking on this journey.

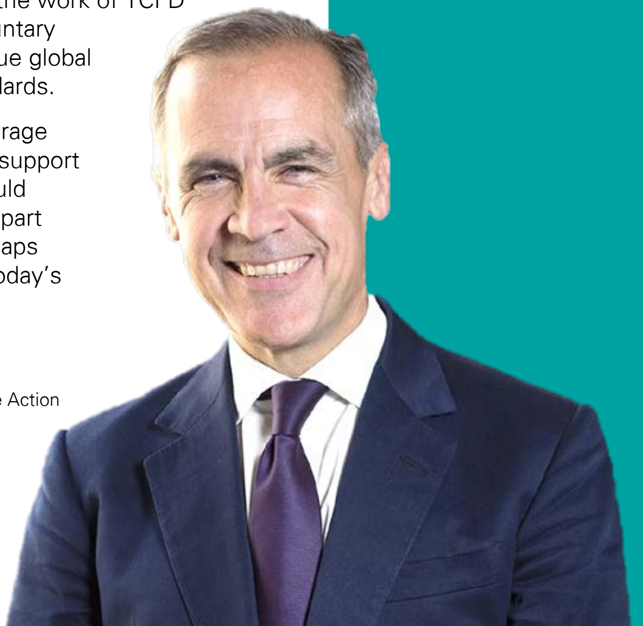
Second, professional services firms have a key role to play in encouraging and supporting rapid and broad adoption of corporate climate disclosure worldwide. This was recently underscored by IAASB guidance, which set out how auditors should consider climate risks and the adequacy of companies' climate disclosures under existing published standards.

And third, climate-related financial disclosures must be made mandatory and be designed around a core framework – ideally the TCFD – to ensure comparability. Heralding the first steps towards this goal, the International Financial Reporting Standards (IFRS) Foundation trustees recently published a consultation with proposals for a new Sustainability Standards Board, that I believe could build on the work of TCFD and the alliance of voluntary standard-setters to issue global climate reporting standards.

I would strongly encourage engagement with and support of this work, which could represent a significant part of the solution to the gaps and fragmentation in today's climate reporting.

Mark Carney
UN Special Envoy for Climate Action and Finance

UK Prime Minister Johnson's Finance Adviser for COP26



About this study

This study proposes a set of quality criteria for climate-related disclosure and analyzes how the world's 250 largest companies (as defined in the Fortune 500 list 2019)[1] measure up against these criteria. The results enable any company to assess its own reporting against the performance of this global leadership group.

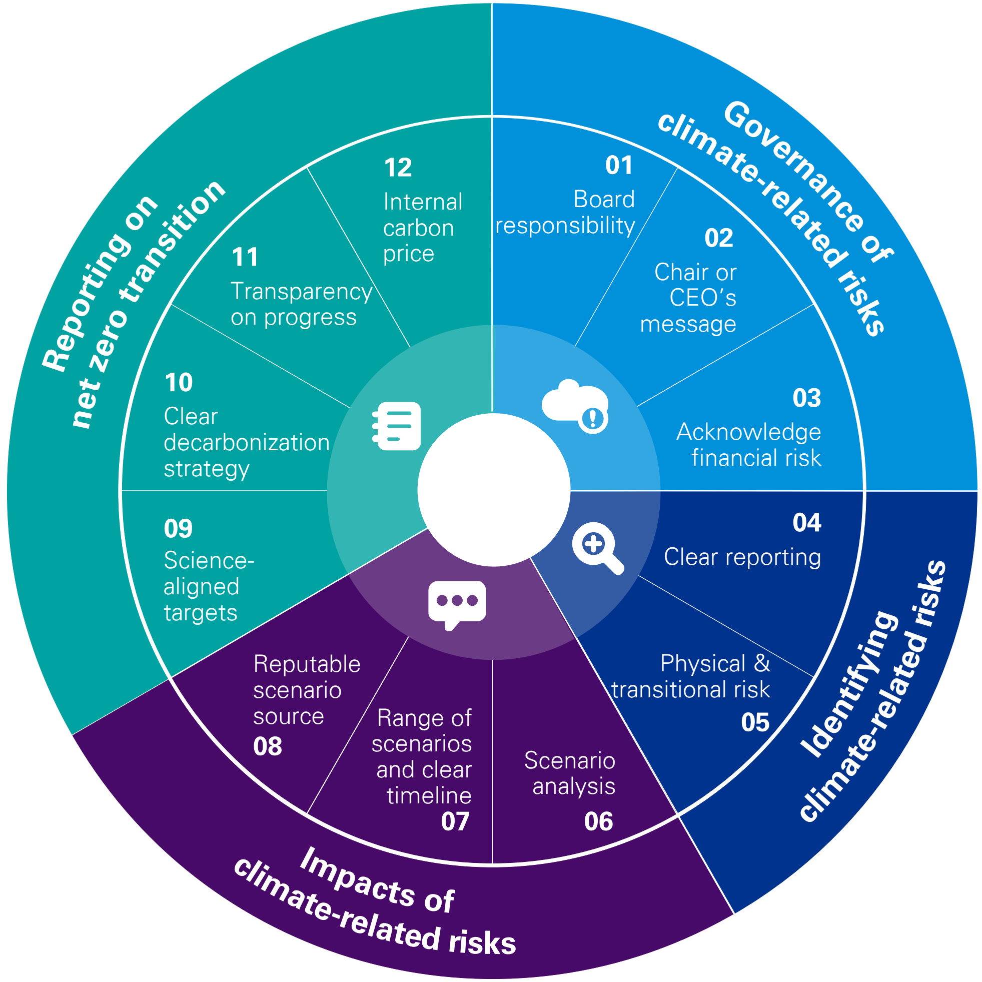
This report is the latest in KPMG's long established series of sustainability reporting surveys and is intended primarily to help corporate reporting, investor relations and sustainability professionals shape their own company's reporting. It may also help investors, lenders, insurers, asset managers and ratings agencies to understand current reporting maturity and the gaps where improvement is needed.

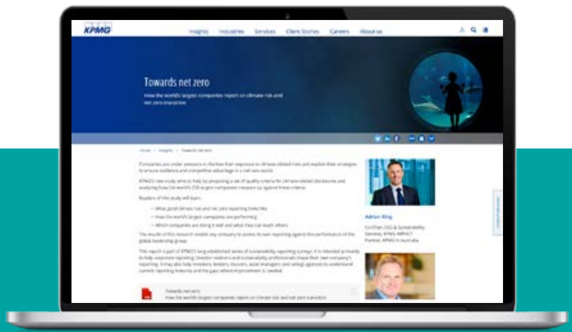
For the purpose of this study, KPMG has developed 12 quality criteria for good corporate reporting on climate risk and net zero transition. KPMG firm researchers used these criteria to analyze and compare the maturity of climate risk and net zero reporting by the world's 250 biggest companies. Throughout this report, these companies are referred to as the "G250".

The quality criteria are based on the insights of climate disclosure experts at KPMG firms, combined with key elements of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, other reporting frameworks and evolving best practice.

1. https://fortune.com/global500/2019/

KPMG's 12 quality criteria for climate risk and net zero reporting





For more detailed analysis of the research data, examples of good practice and further KPMG commentary, please download the full version of this report from **home.kpmg/netzeroreporting**

KPMG's 12 quality criteria for climate risk and net zero reporting

Governance of climate-related risks

01 Reporting should confirm the company has assigned board responsibility for overseeing the company's response to climate change

02 The Chair or CEO's message in the annual financial or integrated report should mention climate change and/or climate-related risks

03 Financial (or integrated) reporting should clearly acknowledge climate change as a potential financial risk to the company

Impacts of climate-related risks

06 Reporting should include scenario analysis of climate-related risks

07 Reporting should include risk analysis in line with different global warming scenarios (ideally two or more) and a clear timeline

08 Scenario analysis should be aligned with recognized climate scenarios developed by reputable sources

Identifying climate-related risks

04 A clear section on climate risk should be included in the company's annual financial or integrated report and/or the company should publish a stand-alone climate risk/TCFD report

05 Reporting should cover both the physical and transitional risks the company faces from climate change and net zero transition

Reporting on net zero transition

09 Reporting should state the company's ambition to achieve net zero carbon emissions at or before the IPCC deadline of 2050 or should clearly explain another target such as science-based targets

10 Reporting should describe the company's strategy to achieve its decarbonization targets

11 Reporting should clearly communicate whether the company is on track to meet its decarbonization targets

12 Reporting should communicate that the company uses an internal carbon price or 'shadow price'

Executive Summary: Key findings

G250 report card

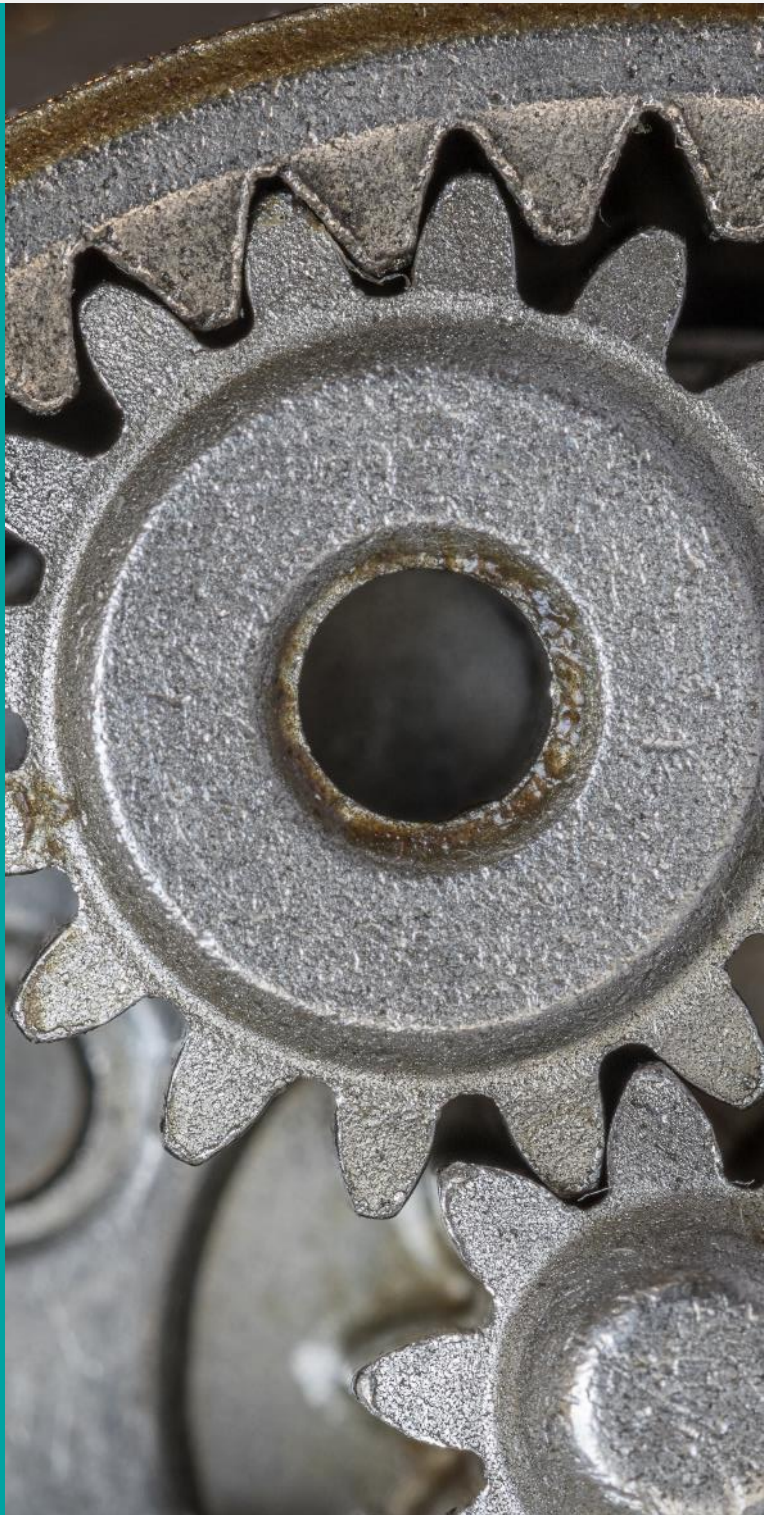
		% of G250	G250 Grade	A grade performers (jurisdiction/country/territory or sector)
Governance of climate-related risks	• Reporting confirms that the company has assigned board responsibility for overseeing the company's response to climate change	44%	C	Japan
	• The Chair or CEO's message in the annual financial or integrated report mentions climate change and/or climate-related risks	33%	C	N/A
	• Reporting clearly acknowledges climate change as a financial risk to the company	56%	B	France, Japan, US Oil & Gas, Retail
Identifying climate-related risks	• The annual financial or integrated report should contain a specific section on climate risk and/or the company publishes a stand-alone climate risk/TCFD report	31%	C	France
	• Reporting covers both the physical and transitional risks the company faces from climate change and net zero transition	47%	C	France, Japan, Germany
Impacts of climate-related risks	• Reporting includes scenario analysis of climate-related risks	22%	D	N/A
	• Reporting includes risk analysis in line with a) two or more global warming scenarios and b) with a clear timeline	12% (a) 17% (b)	D	N/A
	• Scenario analysis is aligned with recognized climate scenarios developed by reputable sources	19%	D	N/A
Reporting on net zero transition	• Reporting states the company's ambition to achieve net zero carbon emissions at or before 2050 OR explains another target	46%	C	Germany
	• Reporting clearly describes the company's strategy to achieve its carbon reduction targets	17%	D	Germany
	• Reporting clearly communicates whether the company is on track to meet its carbon reduction targets	24%	D	N/A
	• Reporting communicates that the company uses an internal carbon price or 'shadow price'	11%	D	N/A

A done by 70 percent or more of reporting companies
B done by 50 percent or more
C done by 30 percent or more
D done by less than 30 percent

Base: 245 corporate reporters

Executive Summary: What the data tells us

- At first glance, KPMG's research suggests that the world's largest companies (G250) are still some way from demonstrating good practice in reporting on climate risk and net zero transition. However, closer observation of the data shows a complex and mixed picture. These companies are doing better at some aspects of reporting than others and there are notable variations in reporting quality between companies based in different geographies and operating in different sectors.
- For example, Japanese companies perform particularly well in demonstrating good governance of climate risk in their reporting and delivering high quality scenario analysis, but they do not do so well at clearly reporting their decarbonization strategies. German companies lead the world in setting net zero decarbonization targets, but lag behind when it comes to transparent reporting of their progress toward meeting such targets.
- On a sectoral level, companies in the technology, media and telecommunications sector, for example, are out in front for acknowledging the financial risk of climate change in their reporting. Few of them, however, are using scenario analysis to model and disclose those risks.
- Readers who take an interest in this topic are therefore advised to examine this study closely in order to understand the full picture.
- Overall, the data paints a picture in which most large companies in most countries have the basics of climate risk reporting in place. They have acknowledged climate change as a financial risk and are reporting, to some extent, on both the physical and transitional climate risks their businesses face. However, only one in five is following the TCFD recommendation to apply scenario analysis to assess and disclose the potential impacts of these risks and even fewer are doing a good job of it.
- With regard to reporting on decarbonization and net zero transition, an encouraging number of companies have set carbon reduction targets that are aligned with what the climate science tell us is needed. This is a significant improvement from the situation 5 years ago when KPMG research showed that the carbon reduction targets being set by the world's biggest businesses were largely arbitrary and unexplained. On the other hand, the G250 as a group still has a lot of work to do to improve the way they report their decarbonization strategies and progress.
- As always, there are notable exceptions. The authors encourage you to read the full report, which offers examples of good practice for each of the 12 reporting quality criteria.



Executive Summary: The KPMG view

A glass half full

When looking at this Executive Summary, it would be easy to conclude that the world's largest companies are underperforming when it comes to reporting their climate risks and decarbonization activities. The G250 report card is dominated by Cs and Ds, showing us that less than half of these companies currently satisfy the bulk of KPMG's quality criteria for good reporting. Yet we, as KPMG professionals, prefer to take a more positive 'glass half full' view of these research findings.

It is important to view this data in its context. Corporate disclosure of climate-related risks, as we currently understand it, simply did not exist 5 years ago. It was at the UN Climate Conference of 2015 (known as COP21 and which spawned the Paris Agreement) that Mark Carney, then Chair of the Financial Stability Board, and Michael Bloomberg launched the TCFD. The reason they did so was precisely because they saw the lack of corporate disclosure of climate-related risk as a threat, not only to individual investors, lenders and insurers, but also to the stability of the global financial system in its entirety.

When we consider this, we can see how swift and significant the progress has been. Less than 5 years later, more than half of the G250 publicly acknowledge climate change as a financial risk. Almost half have assigned board level responsibility for the company's response to climate change. As noted in the previous section, these rates are considerably higher in some countries and industry sectors.

Similarly, the concept of net zero emissions is new to the mainstream political and business worlds. It first appeared in the text of the Paris Agreement of 2015, although the Agreement's deadline for achieving global net zero emissions was vaguely expressed as "in the second half of this century." It is only very recently that 2050 has begun to emerge as a widely adopted target date. In 2019, the UK, France, Denmark and New Zealand enshrined achievement of net zero by 2050 into national law. A net zero target at or around the same year is now either in law or on its way to becoming law in approximately 20 countries and territories.

In this context, it is remarkable that one in five of the world's largest 250 companies already has a net zero emissions target in place. In some locations, such as Germany and Japan, the rates are even higher.

So, while there is much yet to be done and we must always guard against complacency, there is cause for some optimism. Even though performance is patchy, rapid progress over the last few years is clearly evident. It is our hope that this report, by providing insight into the current state of play, may help to close some of the gaps and contribute to further progress.

Conclusion and next steps for readers

This KPMG survey of climate risk and net zero reporting reveals remarkable progress by some of the world's largest companies in only a few years.

It is important to remember that it can take a large company 2 years or more to prepare before it is ready to publicly disclose its climate risk information. The process can be time consuming and complex, especially for companies doing it for the first time. So, the organizations that are already making public disclosures can be considered true global leaders. Recognizing that climate risk disclosure would likely become not only standard practice but ultimately a mandatory requirement for businesses, they started the journey early. They should be applauded for that, even if most disclosures are not yet complete and do not satisfy all the quality criteria set out in this report.

Through the work that KPMG firms are doing with clients, we can see further progress taking place behind the scenes. Corporate experience is growing and innovation, new ways of analyzing climate risks and improved data are emerging.

We are confident that more and deeper disclosures are on the way and that we will see a rapid ratcheting-up of both the volume and quality of information being disclosed.

As closing thoughts for companies starting out on the journey, we offer the following:

- First, reporting should be aligned and keep pace with the development of the business itself. Even the world's largest 250 companies are on a journey and don't get everything right straight away. For those starting with reporting, our advice would be to take a business lens and let the reporting follow from that. Don't be too concerned about 'ticking all the boxes'. The TCFD recommendations are not intended as a box-ticking exercise, but as a framework to inform business and investment decisions alike.
- Second, the disclosure landscape is evolving rapidly and the pressure to disclose is growing. The policy and regulatory tide in an increasing number of jurisdictions is turning towards mandatory climate risk disclosure and 2050 net zero targets. Companies that have not yet started out on their climate risk disclosure and net zero planning should begin without delay.
- Finally, be careful about misreading the recommendations of the TCFD as flexible and easy to meet. Serious implementation of them requires genuine and ongoing commitment not only from leadership but right across the business, and the appropriate resources to be made available. A light touch approach will not provide financial stakeholders with the decision-useful information they need and could result in substantial risk management issues if the company fails to fully understand and act on the impacts of climate change on its business.

Research methodology

This research was conducted in 2020 by Sustainability Services professionals at KPMG in Germany. They reviewed corporate reporting by the world's 250 largest companies (G250) as defined by the Fortune Global 500 ranking for 2019. Reporting included annual financial or integrated reports, sustainability reports, stand-alone reports and company websites published between 1 July 2019 and 30 June 2020.

The researchers assessed reporting by the G250 against 12 quality criteria for good climate risk and net zero reporting. These criteria were developed by KPMG professionals and are explained on pages 3 to 4 of this executive summary.

G250 research sample: National breakdown

Country where company is headquartered

US	28%	(69 companies)
China	24%	(59 companies)
Japan	11%	(28 companies)
France	7%	(18 companies)
Germany	7%	(17 companies)
South Korea	3%	(7 companies)
Switzerland	2%	(5 companies)
United Kingdom	2%	(5 companies)
Brazil	2%	(3 companies)
India	2%	(4 companies)
Italy	2%	(4 companies)
Spain	2%	(4 companies)
Australia	1%	(3 companies)
The Netherlands	1%	(3 companies)
Russia	1%	(3 companies)
Singapore	1%	(1 company)
Other	5%	(17 companies)

G250 research sample: Companies by sector

24%	Financial Services (57 companies)
14%	Technology, Media & Telecommunications (TMT) (33 companies)
12%	Industrials, Manufacturing & Metals (23 companies)
11%	Oil & Gas (30 companies)
8%	Automotive (21 companies)
8%	Retail (22 companies)
6%	Healthcare (16 companies)
17%	Others (each 5% or less of the total sample): Chemicals, Construction & Materials, Food & Beverage, Forestry & Paper, Mining, Personal & Household Goods, Transport & Leisure, Utilities. (48 companies)

How we can help: KPMG climate risk and net zero reporting services

KPMG firms can provide bespoke services to help clients address climate-related financial risks.

Our support covers the following areas:

Assess and improve readiness for reporting:

Using advanced tools, KPMG professionals can evaluate the extent to which your business's processes, methods and disclosures currently fulfil the TCFD recommendations. We can benchmark your company's performance against industry best practice to show where you stand in the market.

Map climate-related risks:

KPMG specialists can help you to understand your company's exposure both to the physical effects of climate change and to the likely regulatory and economic impacts of the shift to a low-carbon economy. We can identify the areas of your business, as well as the countries where your operations are located, which are - or will be - most affected by climate change.

Use scenario analysis to assess resilience:

In line with the TCFD recommendations, KPMG firms can help you understand how climate-related risks and opportunities could affect your business in a variety of regulatory, economic and climate scenarios. We can explore what these scenarios would mean for your business in the short, medium and long terms and develop tools and procedures to assess and quantify the potential financial impacts.

Inform business strategy:

KPMG professionals can help you identify the climate risks that are most pressing for your company. We can provide recommendations on how to develop a robust climate resilience strategy for operations and product portfolios taking into consideration the different scenarios that could pan out in the future.

Adapt investment strategies:

KPMG specialists can work with asset owners and managers to review and adapt their investment strategies in order to reduce exposure to climate-related risk.

Manage and report on risks:

KPMG firms can help you define appropriate data collection systems, metrics and targets to monitor, manage, and report on climate-related risks in line with the TCFD recommendations. We can provide advice on how best to disclose your climate-related risks in your financial disclosures and provide good practice examples to guide your reporting.

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