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MAKING SENSE OF CLIMATE DISCLOSURE

From Information Producers to Users and the Frameworks In Between

PRESENTED BY:





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i.

ABOUT NOVATA & PERSEFONI

	<p>Novata is a public benefit corporation, formed in partnership with the Ford Foundation, Omidyar Network, Hamilton Lane, and S&P Global. The organization was built to enable private equity firms and private companies to navigate the Environmental, Social, and Governance (ESG) landscape by providing relevant reporting metrics, a secure contributory database to store information accordingly, and tools for analysis and reporting to key stakeholders including Limited Partners (LPs) and regulators.</p> <p>Novata worked closely with a diverse group of leading private equity general partners (GPs) to select and socialize a set of core, commonly defined metrics. Through this common denominator of standards, frameworks, and metrics, Novata and its partners strive to mitigate ESG reporting fragmentation.</p>		<p>Persefoni is the leading Climate Management & Accounting Platform (CMAP). The company’s Software-as-a-Service solutions enable enterprises and financial institutions to meet stakeholder and regulatory climate disclosure requirements with the highest degrees of trust, transparency, and ease. As the enterprise resource planning (ERP) system for Carbon, the Persefoni platform provides users a single source of carbon truth across their organization, enabling them to manage their carbon transactions and inventory with the same rigor and confidence as their financial transactions.</p>	
	<p>Visit www.novata.com</p>		<p>Visit www.persefoni.com</p>	
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ii.

EXECUTIVE SUMMARY

This guide was created to help financial institutions successfully understand climate disclosure requests by highlighting key players in the sustainability reporting ecosystem, outlining key frameworks with which to align, and providing details on the software tools to use when disclosing environmental impact data.

Climate disclosures and carbon accounting are new concepts for a lot of companies. But as pressure grows from ESG and **climate information users** (regulators, stakeholders, and investors), **climate information reporters** (companies, financial institutions) have been increasingly disclosing their climate data in line with their financial disclosures. To enable reporters with accurate, timely, and transparent disclosures, software companies have developed platforms to streamline the process. This reporting infrastructure is supported by a set of key frameworks that standardize the process, helping information producers understand how and what to measure and disclose, ensuring that information users know disclosures are accurate and transparent.

The risks and opportunities that climate change brings to financial markets are becoming increasingly apparent. There is increasing pressure from information users for extensive and transparent climate disclosures. Information producers must now begin to meet these expectations and provide more granular and accurate climate disclosures in line with the relevant standards and frameworks. Those that can adapt will improve the sustainability of their companies, whereas laggards increase their chances of regulatory sanctions, reputational damage, and exposure to climate risk.



iii.

BACKGROUND ON CLIMATE DISCLOSURE



iii.

The Intergovernmental Panel on Climate Change (IPCC) defines global warming, in simple terms, as “the increase in combined surface air and sea surface temperatures averaged over the globe over a 30-year period relative to the period 1850–1900, used as an approximation of pre-industrial temperatures.”¹



Extreme weather events are increasing across the globe.

The heating of the earth’s atmosphere is primarily driven by greenhouse gas (GHG) emissions, which are linked to most of our daily activities such as transportation, electricity consumption, heating and cooling of buildings, construction, manufacturing, agriculture, and waste. The resulting global warming drives climate change across our planet,

leading to extreme and unpredictable weather events, flooding, droughts, species loss, health risks, and more. World leaders and climate scientists have been discussing this existential issue for decades, though little progress has been made on a global scale to curtail potential catastrophic events. In 1997, the Kyoto Protocol was established as an international treaty that committed state parties to reduce GHG emissions. Another major milestone was reached in 2015, when 196 countries established the Paris Agreement; committing to limit global temperature rise “to well below 2°C and pursuing efforts to limit it to 1.5°C”² below pre-industrial levels, pledging to adapt to the effects of a changing climate, and directing resources toward achieving these goals. It is estimated that in order to achieve the 1.5°C limit, the world would have to cut GHG emissions by 55% by 2030, whereas current global commitments, if met, would only reduce them by 7.5%.³

In recent years, the mounting urgency

of climate change and its impacts has in turn created the need for a clear picture of the role business plays in our planet’s warming. Corporate disclosure on climate goals and impacts has been increasingly crucial in painting this picture. Businesses have responded to the call over the years, and more than 13,000 companies, worth over 64% of global market capitalization, currently disclose their environmental data through the CDP.⁴

Climate disclosures refer broadly to the reports companies file to disclose their exposure to climate risks and opportunities. These disclosures can include climate strategies, goals and metrics, and climate-risk management. An important and initial step for climate disclosures is carbon accounting — measuring the GHG emissions that an organization emits. Because once companies know the amount of emissions they produce, and where those emissions come from, it is easier to create reduction strategies, goals, and assess climate risks and opportunities.

¹ IPCC (2018), Special Report: Global Warming of 1.5 °C, <https://www.ipcc.ch/sr15/>
² European Commission (2016), Climate Action: Paris Agreement, https://ec.europa.eu/climate/act/action/international-action-climate-change/negotiations/paris-agreement_en
³ UN Environment Programme (2021), Emissions Gap Report, <https://www.unep.org/resources/emissions-gap-report-2021>
⁴ CDP (2021), CDP reports record number of disclosures and unveils new strategy to help further tackle climate and ecological emergency, <https://www.cdp.net/en/articles/media/cdp-reports-record-number-of-disclosures-and-unveils-new-strategy-to-help-further-tackle-climate-and-ecological-emergency>

iii.

Financial institutions have also increasingly recognized that climate risks and opportunities pose financial risks and opportunities to their businesses, primarily in the form of physical risk and transition risk.

Physical risks refer to the economic costs and financial implications resulting from increasing extreme weather events, severe climate shifts, and indirect effects of climate change (e.g. water shortage). An example of a physical risk would be the destruction of real estate, infrastructure, or land.

Transition risks are those related to the process of transitioning away from reliance on fossil fuels and toward a low-carbon economy, including shifts in climate policy, regulation of certain industries, and global market sentiment. An example of a transition risk would be a carbon tax. The International Monetary Fund recognizes that it is essential to integrate climate change risks into the analysis of financial risks and vulnerabilities.⁵

It is now becoming widely accepted that measuring and managing these risks and opportunities is intrinsically linked to the fiduciary duty of an investment manager. During the 2021 UN Climate Change Conference (COP26) in Glasgow, the goals of the Paris Agreement were reiterated and strengthened, with financial institutions increasingly committed to improving their disclosure of climate-related risks. The most notable coalitions that were created during this event include:



1. Glasgow Financial Alliance for Net Zero (GFANZ): Over 450 financial firms, across 45 countries and responsible for over \$130 trillion in assets, committing to halve global emissions by 2030 and achieve net zero emissions by 2050 using science-based guidelines.



2. Net Zero Banking Alliance

(NZBA): Global banks, representing over 40% of global banking assets, committing to align their lending and investment portfolios with net zero emissions by 2050.

Financial institutions, defined for the purposes of this paper as investment managers and banks, have an important role to play in the global journey to net zero. These institutions provide capital, primarily in the form of loans and equity, to facilitate the operations of companies in various industries. In addition, they invest in and trade the securities of issuers that all contribute to GHG emissions.



Financial institutions are critical in the global fight against climate change.

⁵ IMF (2019), Climate Change and Financial Risk: Central banks and financial regulators are starting to factor in climate change. <https://www.imf.org/external/pubs/ft/fandd/2019/03/climate-change-central-banks-and-financial-risk-031900a.htm>

iii.

These indirect emissions tied to loans, investments, and debts are known as **financed emissions** and account for the vast majority of a financial institution’s carbon footprint. Therefore in order to meet crucial net zero commitments, financial institutions must look closely at how carbon intensive their financed emissions are, and ultimately begin making decisions within their portfolios to drive those emissions down.

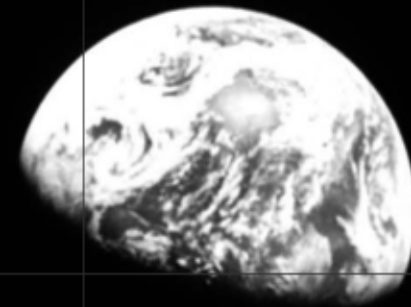
Accounting for financed emissions is no simple feat. Within most organizations, measuring and disclosing financed emissions is a new deliverable, requiring new routines and workstreams for gathering data. There is a learning curve. PCAF describes the required steps for doing so, which include collecting and calculating an asset’s emissions and then calculating a proportion of those emissions as a share attribution to the financial institution. As large financial institutions can have millions of assets this can become an overwhelming calculation.

While the ESG landscape is fragmented, there is generally alignment as it relates to climate-related metrics and disclosures. Nevertheless, the challenges of gathering data that provide a holistic picture of financed emissions remain substantial as institutions adopt and develop this practice.

With these data challenges and the rapidly mounting urgency of climate change in mind, it is imperative that financial institutions develop a plan to begin preparing climate data that track the full extent of their carbon footprint.



Financed emissions account for the vast majority of a financial institution’s carbon footprint.



iv.

REPORTING ECOSYSTEM



iv.

One of the key features of the partnership between Novata and Persefoni is a shared approach to carbon accounting and disclosure, based on the relevant carbon accounting and disclosure frameworks.

As it relates to the “Sustainability Reporting Ecosystem,” a term and related mapping coined by SASB, Novata and Persefoni are “information producers” with complementary offerings, both providing software and technology capabilities that enable reporters to align with the correct frameworks and standards and to collect and report accurate climate information, which they can share with information users.



INFORMATION PRODUCERS

REPORTERS	Collect, validate, set up internal controls/procedures, involve internal audit, involve external audit, and then publish the information.	
SOFTWARE PROVIDERS	Software providers and disclosure platforms such as Persefoni and Novata enable filers to collect and report information.	
FRAMEWORKS & STANDARDS <i>(underpins all information)</i>	A <i>framework</i> is a set of principles and guidance for “how” a report is structured. A <i>standard</i> outlines specific, replicable, and detailed requirements for “what” should be reported for each topic.	

INFORMATION USERS

END USERS	Investors and other stakeholders such as the general public, senior executives, employees, customers, governments, and suppliers will consume and analyze disclosure information to make informed decisions.	
REGULATORS	Regulators are increasingly interested in sustainability information, with some moving to mandate it in accordance with standards and some using the information for regulatory purposes.	

Table 1
Source: Chart adapted from SASB Standards “Sustainability Reporting Ecosystem.”⁶

⁶ SASB (2021). Standards & Other ESG Frameworks. <https://www.sasb.org/about/sasb-and-other-esg-frameworks/>

iv. EMISSIONS BY SCOPE



iv. FRAMEWORKS AND STANDARDS

Frameworks and standards underpin the entire ESG (Environmental, Social, Governance) reporting ecosystem, which – under the umbrella of the “E” of ESG – includes climate disclosure.

From a climate disclosure and carbon accounting perspective, the original and most important framework is the GHG Protocol (GHGP).

All standards built after this original accounting framework (e.g. TCFD and PCAF) work collaboratively with it and find synergies where the GHGP is underdeveloped.



Greenhouse Gas Protocol (GHGP)

Created in 1997, the GHG Protocol (GHGP) was the first and remains the most used and recognized carbon accounting framework. It provides guidelines for organizations to develop inventories for greenhouse gas (GHG) emissions. Under the GHGP, all emissions are broken down into three scopes. Scope 1 and 2 are required to be measured, whereas Scope 3 is currently optional.

- **Scope 1** refers to the direct emissions from an organization’s operations, including company vehicles and buildings.
- **Scope 2** categorizes indirect emissions from purchased electricity, heating, and cooling.
- **Scope 3** comprises all other indirect emissions that exist in a company’s value chain, such as financed emissions and outsourcing activities.



Task Force on Climate-Related Financial Disclosures (TCFD)

Created in 2015, the TCFD provides a common global approach for reporting on the risks and financial impacts of climate change and helps companies align with the goals of the Paris Agreement.

The TCFD’s guidance recommendations for climate-related disclosures were released in a 2017 report.⁷ These recommendations were designed to be applicable to all organizations across all jurisdictions and sectors, as well as to provide investors with reliable, comparable, and forward-looking information on which to base decisions. The TCFD recommends four main areas of focus for disclosure: governance, strategy, risk management, and targets and metrics for assessing climate-related risks and opportunities.

⁷ TCFD (2017), Recommendations of the Task Force on Climate-related Financial Disclosures, <https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>

iv. FRAMEWORKS AND STANDARDS



The Partnership for Carbon Accounting Financials (PCAF)

The PCAF is an industry-led initiative created by Dutch banks in 2015 and then adopted as a global standard in 2019 to assist financial institutions in aligning their financed emissions with net zero targets by 2050 (in line with the Paris Agreement). This initiative introduced a globally accepted standard for the measurement and disclosure of financed emissions and provides in-depth methodological guidance to measure and disclose the GHG emissions of six asset classes.



The Global Reporting Initiative (GRI)

The GRI was founded in 1997 following public outcry over the Exxon Valdez oil spill. They created the first global standards for sustainability reporting (the GRI Standards). Today, they are one of the most commonly used reporting frameworks, helping companies, governments, and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change.



Sustainability Accounting Standards Board (SASB)

SASB provides guidelines for investors on what financially material information companies should report, as well as frameworks that identify what ESG information (including climate-related information) is relevant to a subset of 77 industries. SASB Standards are maintained by the Value Reporting Foundation, a global nonprofit that offers resources to help businesses and investors develop a shared understanding of how enterprise value is created, preserved, and eroded.

⁷ TCFD (2017), Recommendations of the Task Force on Climate-related Financial Disclosures, <https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>



V.

THE GROWING NEEDS OF INFORMATION USERS



v.

Climate information users are progressively asking for more accurate and detailed metrics on an organization’s climate performance.

End Users

Limited Partners (LPs) are increasingly including questions related to climate change in the questionnaires they send to General Partners (GPs), seeking to gather more data on their exposure. This trend has revealed how challenging it is to measure, manage, and analyze climate data. Nevertheless, accurate, timely, and transparent carbon disclosures give investors a better understanding of their climate-related risks and opportunities.

An increasingly knowledgeable public is also beginning to analyze the impacts their consumption and job choices have on the environment, and in turn, are looking for more accountability from the companies they work for and buy from. Organizations that produce accurate and transparent sustainability disclosures are likely to lower costs and increase employee retention.⁸ Therefore the

accurate measurement and reporting of climate performance is a key performance indicator in the long-term financial sustainability of a company.

Regulators

Regulators are starting to legislate on climate disclosures to ensure companies are doing their due diligence in measuring, managing, and analyzing their carbon footprint. Governments such as the UK, Japan, and New Zealand have already begun ensuring their largest, publicly traded companies disclose accurate and transparent climate information through TCFD-aligned mandates. At the time of publication of this guide, the US Securities Exchange Commission (SEC) was set to introduce similar mandates for public companies. Some legislations – including the EU’s Corporate Sustainability Reporting Directive (CSRD) – are beginning to include private companies within their climate disclosure mandates. Set to come into play in 2023, the CSRD requires any company with more than 250 employees or more than €40M

Turnover to disclose their climate risks. As other geographies could initiate similar disclosure requirements, private companies should be as prepared as their publicly listed peers to include their climate data with their financial filings.

As pressure grows to measure more often, more accurately, and more extensively, data collection and reporting of increasingly complex climate data has become a growing issue.

Firms that disclose carbon emissions as part of their climate performance disclosures have typically tracked emissions data through cumbersome Excel spreadsheets and email communications. These methods are labor-intensive, expensive, and prone to errors. Software is an obvious solution for organizations to ensure that their reporting is accurate and transparent. Both information users and providers will benefit from the level of trust, transparency, and insight reporting and measuring carbon with software brings.

* McKinsey Quarterly (2019), Five ways that ESG creates value. https://www.mckinsey.com/_/media/McKinsey/Business%20Function/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value.aspx

v.

As ESG and climate software companies, **Novata** and **Persefoni** act as databases for an organization's ESG and climate data and empower organizations to input and report their emissions easily – providing clear solutions to the challenges of tracking and disclosing emissions data accurately.

vi.

INFORMATION PROVIDERS RISING TO THE CHALLENGE



With rising pressure from information users to produce accurate, timely, and transparent climate disclosures, information providers are increasingly invested in providing extensive reporting.

Climate disclosure reporters are increasingly using the frameworks, software, and methodologies at their disposal to mitigate the obstacles of producing accurate climate reports.

Reporters

With regulators and key stakeholders holding financial institutions to account on issues of climate change, these institutions are increasingly liable for providing accurate and extensive accounting and reporting. Some are at different stages of the process than others, but with international agreements like the GFANZ and NZBA, many have signed up to a net zero commitment, meaning that they are now obligated to take steps to measure, manage, and reduce their emissions. The first step in this

process is the complicated carbon accounting process, for which reporters increasingly rely on CMAP and ESG software companies to ensure that the accounting and disclosure of their carbon data meet the same standards of accuracy and trustworthiness as that of their financial data.

Software Providers

As software providers for climate disclosing companies, Novata and Persefoni have partnered to solve the pain points of our joint customer base in the financial markets. Helping financial institutions produce accurate and transparent climate disclosures at a fraction of the cost and time of previous methods. Through a SaaS model, both Novata and Persefoni cover all bases from an ESG data collection, management, and analysis perspective. While Novata focuses holistically on ESG disclosures – providing resources and a platform that cover a range of ESG-related metrics, including climate measurements and disclosures – Persefoni solely

deals with the niche and complicated process of measuring GHG emissions.

Together, both firms act as a trusted conduit between information producers and information users. Through the utilization of the most up-to-date frameworks, we help companies understand their climate risks and opportunities, and communicate their performance to stakeholders, investors, and regulators.

vi.

Novata focuses on the entire spectrum of ESG disclosures – including climate – enabling private companies to collect, analyze, benchmark, and report on ESG information. Novata worked closely with its clients in the private markets to provide a set of commonly defined, framework-aligned metrics to support comparable disclosure that can be easily benchmarked. Novata’s approach provides a crafted onboarding process for organizations looking to initiate or improve their ESG and climate disclosures.



Persefoni, as the leading CMAP, has codified the essential frameworks that underpin the carbon accounting and disclosure process. Carbon accounting is a complex and labor-intensive process requiring a vast network of data collection and calculations bespoke to a particular type of emission. The complexity of this practice led Persefoni to focus its platform solely on this area, answering a growing need for accurate, timely, and fully transparent carbon disclosures and helping organizations understand the intricacies of their carbon inventories so they can make informed decisions on how to best reduce their emissions. These accurate carbon information outputs also help investors, stakeholders, and regulators (information users) understand an organization’s carbon footprint and the measures they are taking to mitigate it.



As information producers, both Persefoni and Novata empower organizations to take stock of their ESG performance. By leveraging common methodologies and frameworks, they assure the correct data are being collected in the correct way and ensure that disclosure is in line with the needs of an information reporter and their stakeholders (information users).

vii.

CONCLUSION



The ecosystem of climate data collection and disclosure is constantly evolving, with information users continually asking for more extensive, transparent, and accurate metrics from information providers. This means that the way information producers measure, manage, and analyze their climate and wider sustainability performance is progressively increasing in complexity and accountability.

The continuously iterating feedback loop between information users, producers, and frameworks within the climate reporting landscape requires an ever-increasing amount of data and transparency. CMAPs and ESG software will be an increasingly integral part of ensuring that organizations can keep up with the data requirements for accurate measurements of climate performance.

Persefoni and Novata are uniquely positioned to assist their shared customer base within the financial markets to meet the growing requirements of the sustainability and climate reporting ecosystem and to identify opportunities and risks in an increasingly green future blighted by the effects of climate change.

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