A call for improved climate disclosures

Sylvera

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Executive Summary

- Companies are under increasing regulatory and shareholder pressure to disclose the risks and opportunities as a result of climate change and the net zero transition. Currently, the quality of these disclosures is not sufficient to assess the quality of corporate climate actions.
- The US and EU have imminent regulations that will be released this year. Both will require companies to report on their use of carbon credits.
- Due to inconsistent disclosures, only 53% of carbon credits used to compensate for emissions since 2017 can be assessed.
- Sylvera's Carbon Credit Analytics enables users to assess the integrity of carbon credit portfolios to get ahead of regulations, minimize risks, and increase the chances of achieving emissions reduction goals.

Disclosures

Disclosures refer to the information that companies publicly provide about their operations, financial performance, and risks.

Introduction

Companies are under increasing regulatory and shareholder pressure to disclose the risks and opportunities as a result of climate change and the net zero transition. These climate-related financial disclosures foster transparency and allow greater scrutiny of companies' climate impacts and sustainability strategies.

A number of companies use carbon credits as integral parts of these climate strategies. To date, disclosure regimes such as Task Force on Climate-related Financial Disclosures (TCFD) have not required companies to transparently report on the number of credits they retire, nor on the origin or identity of credits. This has resulted in patchy, incomplete or totally absent disclosures of carbon credit usage.

In order to assess the accuracy of companies' sustainability strategies and claims, clear information must be provided about the role of carbon credits, and also the identity and integrity of credits being used. Therefore disclosure requirements must be improved to entail more detailed and comprehensive information.

This is being addressed by regulators in some regions, including the US and EU. **Proposed updates to disclosure rules will require companies in scope to make more comprehensive disclosures about their use of credits.** Even for companies not in the scope of these regulations, transparent disclosures around carbon credits is fundamental to credible sustainability strategies.

To promote transparency and independent scrutiny of sustainability strategies, Sylvera has launched Carbon Credit Analytics (CCA). CCA enables analysis of the composition and integrity of portfolios of carbon credits across 1450 companies.

Data and case studies from CCA reveal both the inconsistency of carbon credit disclosures and integrity of carbon credit portfolios, as well as examples of best practice.

Through greater transparency and scrutiny, facilitated by more comprehensive disclosure regulations, we hope that companies will continue to raise the bar in transparently setting and implementing ambitious sustainability strategies to combat the climate crisis.

The voluntary carbon markets and climate-related disclosures

What are climate-related disclosures?

Disclosures refer to the information that companies publicly provide about their operations, financial performance, and risks. The purpose is to provide transparency to investors and other stakeholders, so they can make informed decisions about the company. These might include annual reports, financial statements, and disclosures to regulators.

Companies are increasingly publishing climate-related disclosures. This information can include data on a company's greenhouse gas emissions, its exposure to physical and transition risks from climate change, and its strategies for managing these risks and opportunities from a net zero transition.

The importance of disclosures

In an economy that is rapidly transitioning to the realities of climate change and mitigation, information about a company's climate impacts and risks is needed to assess its long-term viability. Information about a company's commitment to sustainability also has implications for its reputation - companies demonstrating climate leadership are favored by consumers and investors.

The voluntary carbon markets and climate-related disclosures Continued

The risks of failing to disclose

In many countries, regulators now require climate-related disclosures from certain companies. Failing to meet these requirements can result in regulatory intervention, fines, and reputational damage.

Even for companies which are not legally required to make these disclosures, there are reputational risks for failing to do so. Stakeholders, including customers, employees, and investors, are increasingly prioritizing sustainability and transparency. Not disclosing this information can result in a loss of trust.

How do disclosures relate to voluntary carbon markets?

Climate-related disclosures can include information about the extent to which companies are using carbon credits in their climate transition plans, and detailed information about these credits - for example what project they were issued from, what vintage, and what validation they have undergone.

At present, the disclosure about the use of carbon credits is done on a voluntary basis. The lack of regulatory oversight increases the likelihood of inaccurate, missing and/or inconsistent information, leading to significant variability in the quality of disclosures between companies, and even reporting years.

In the future, as climate-related disclosure rules develop, it is expected that information about the use of carbon credits will be required. As this information about companies' climate strategies and carbon credit use will be public and easier to scrutinize, we hope it will encourage companies to act with higher integrity and reduce opportunities for greenwashing.

The carbon credit disclosure landscape

Voluntary market initiatives

A number of initiatives issue guidance to companies on best practice for climate-related and carbon credit disclosures, or provide frameworks to support companies making these disclosures. TCFD, CDP and ISSB have had particular impact in shaping best practice, impact and regulation. The following tables summarize key information about these initiatives and their requirements related to VCMs.

	TCFD - The Taskforce for climate-related financial disclosures	**CDP - (formerly The Carbon Disclosures Project)**	**ISSB (International Sustainability Standards Board)**
Notes	The original guidance on climate-related disclosures, first published in 2017 and since adopted across 89 countries.	CDP's disclosure platform provides the mechanism for reporting in line with the TCFD recommendations. A number of optional questions also offer the opportunity for companies' disclosures to go beyond TCFD.	A standard-setting body established in 2021 to develop guidance on globally-aligned sustainability reporting standards. Their guidance for national regulators is based on, but goes further than, TCFD guidance.
Guidelines	Recommendations of the TCFD 2017 Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures 2021	CDP climate questionnaire 2022 How CDP is aligned to the TCFD TFCD technical note	[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information [Draft] IFRS S2 Climate-related Disclosures 2022
Required to report emissions?	Yes, in line with GHG protocol	Yes, in line with GHG protocol	Yes, in line with the GHG protocol
Required to report Scope 1&2?	Yes	Yes	Yes
Required to report Scope 3?	Required subject to materiality. All encouraged to do so.	Organization must account for its gross global Scope 3 emissions, disclosing and explaining any exclusions.	Yes
Report use of carbon credits?	No	Yes. Also options to disclose the purpose of purchasing those credits and whether they were retired.	Yes. Should disclose the intended use of carbon offsets in achieving emissions targets.
Other credit details	N/A	Number of credits, project type, project identification, standard.	Third party credit verification; credit type including technology or nature-based, and avoidance or removal; and any other significant factors necessary to understand credibility and integrity.

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The carbon credit disclosure landscape

Regulations

In several geographies, the guidance from these initiatives is being adopted by regulators. The UK led with adoption of TCFD guidance, but now regulators in the EU and US are going beyond these requirements, guided by ISSB guidance and their own consultations.

	EU	UK	US
Date in action	Phased in from 2024 (first disclosures Jan 2025). Final phase 2027	6 April 2022	Response to consultation expected in Q3 of 2023. The process to bring into law is then expected to take over a year to implement.
Regulator	European Commission & EFRAG - European Financial Reporting Advisory Group	FCA - Financial Conduct Authority	SEC - Securities and Exchange Commission
Source	CSRD - Corporate Sustainability Reporting Directive	Companies (Strategic Report) (Climate-Related Financial Disclosure) Regulations 2022 and The Limited Liability Partnerships (Climate-Related Financial Disclosure) Regulations 2022	Proposal - The Enhancement and Standardization of Climate-Related Disclosures for Investors 2022
Notes	Proposed update, expansion and standardization to existing EU rules. Details on carbon credits are required through the ESRS E1 Climate Change	Disclosures required in line with TCFD. Amendments to Companies Act 2006 and Limited Liability Partnerships Regulations 2008.	Proposal expected to be watered down after consultation period. Currently the most extensive disclosure requirements on carbon credits.
Scope	Companies with >250 employees, $40 million in assets or $20 million in revenue. Expands disclosure coverage from 11k to 50k companies.	LLPs and many large and/or listed UK companies (with >500 employees).	All SEC Registrants - any company that files documents with the SEC, plus companies that list securities on exchanges, or have more than $10 million in assets.
Required to report emissions?	Yes, disaggregated from use of credits	Yes, scope 1,2,3	Yes in line with GHG protocol, disaggregated by GHG gas and excluding any use of purchased or generated offsets
Required to report use of carbon credits?	Yes - number of credits bought and retired, and planned future cancellations per existing contractual agreements.Also, whether and how this impedes or reduces the achievement of its GHG emission reduction targets	No	Yes in line with GHG protocol, disaggregated by GHG gas and excluding any use of purchased or generated offsets
Additional info (on credits)	The credibility and integrity of the carbon credits used against recognised quality standards*. The share (percentage of volume) of reduction projects and removal projects, for each recognised quality standard, from projects in the EU, and that qualifies as a corresponding adjustment.	N/A	The source, description and location of the underlying projects, any registries or other authentication of the offsets or RECs, and the cost of the offsets or RECs

Encouraging better carbon credit disclosure

The state of voluntary disclosure on CDP

CDP is the reporting mechanism favored by most companies wishing to voluntarily disclose climate-related information, including carbon credit usage. However, given that disclosures around carbon credits are not mandated, the data is neither comprehensive nor consistent. The table below summarizes the quality of carbon credit disclosure on CDP since 2018:

	Companies disclosing climate-related information	Companies disclosing carbon credits	% of accurate carbon credit disclosure
2018 disclosure	2627	315	54.25%
2019 disclosure	3867	353	57.85%
2020 disclosure	4546	446	56.65%
2021 disclosure	5914	601	63.59%
2022 disclosure	8364	811	59.47%

While the number of companies disclosing carbon credit usage through CDP has increased by 260% since 2018, the percentage of companies accurately disclosing their use of carbon credits has only increased by 10% since 2018.

What bad disclosure of carbon credits looks like

CDP

Inaccurate carbon credit disclosure refers to instances where the information published is not enough to identify the carbon project issuing the carbon credits used by a company. The table on page 9 shows that, on average, only 58% of companies disclosing carbon credits through CDP disclose enough information to trace credits to the issuing projects.

In order to identify the source of credits, companies need to disclose fundamental information, such as the carbon project name and identification number or the carbon credits serial numbers.

Registries

For voluntary carbon credits to be used to offset companies' emissions, they must be retired on the registries where the issuing carbon project is registered (eg. Voluntary Carbon Units (VCUs) retired on the Verra Registry).

On such registries, for all retirements, information on the issuing carbon project, credit vintage and number of carbon credits is provided. However, the entity benefiting from carbon credits isn't always named transparently.

Across Verra, Gold Standard, American Carbon Registry, Climate Action Reserve (the biggest registries in the voluntary carbon markets) and EcoRegistry, 67.6% of all historical carbon credit retirements can't be linked to an organization.

The importance of good carbon credits disclosure

In light of increasing investor and stakeholder pressure, along with impending regulations, the need for good carbon credit disclosure is critical.

Since 2017, approximately 636 million carbon credits have been retired across the registries listed previously and used by companies to compensate for their emissions. Using disclosures from CDP and the registries, of the 636 million, 500 million (79%) can be linked to approximately 1450 companies disclosing climate-related information on CDP since 2017.

While 500 million credits represent a significant portion of all historical carbon credits retired on registries and not linked to organizations, extensive data parsing and cleaning of CDP disclosure enabled us to link these credtis to companies.

Of those 1450 companies disclosing climate related information on CDP, approximately 88% have emission reduction targets. However of the 500 million credits used to meet those targets, 235M credits (47%) can't be traced back to their issuing projects, due to poor disclosure.

In the current state of disclosure, the integrity of carbon credits used towards emission reduction claims can't be asserted, raising questions on the validity of progress made towards the targets.

Carbon credits disclosure leader board

Top disclosing companies

While improvements in guidance to ensure consistent quality of carbon credit-related disclosures are needed, some companies are already demonstrating good practice. The following list includes 10 companies disclosing carbon credit usage. For the below 10 companies, all carbon credits used can be traced back to an issuing carbon offset project.

- Airbus SE
- BHP
- BNP Paribas
- Fortum Oyj
- Inpex Corporation
- Osaka Gas Co., Ltd.
- PostNL
- Procter & Gamble Company
- Telstra Corporation
- UPS

Quality of carbon credits retired

Of the sample of 1450 companies discussed in page 11 (companies disclosing climate-related information on CDP and using carbon credits to compensate for their emissions), 88% also have committed to emission reduction targets.

The following table shows the average quality of carbon credits used by 5 companies from the list.

Company name	% of portfolio rated by Sylvera	Average Sylvera rating
Osaka Gas Co., Ltd.	71%	A
BNP Paribas	93%	BBB
Inpex Corporation	84%	BB
BHP	90%	BB
Allianz	100%	BB

Note: Sylvera carbon credit rating frameworks assign scores on 8-point scale ranging from AAA to D. This assessment was performed on carbon credits used since 2017.

While the above companies accurately disclose information on their usage of carbon credits, the average quality of those credits varies significantly. At present, such assessment can be conducted only for 53% of all carbon credits used by 1450 companies disclosing on CDP. Companies need to disclose which credits they are using in order for investors and consumers to be able to understand the impact of their climate strategies.

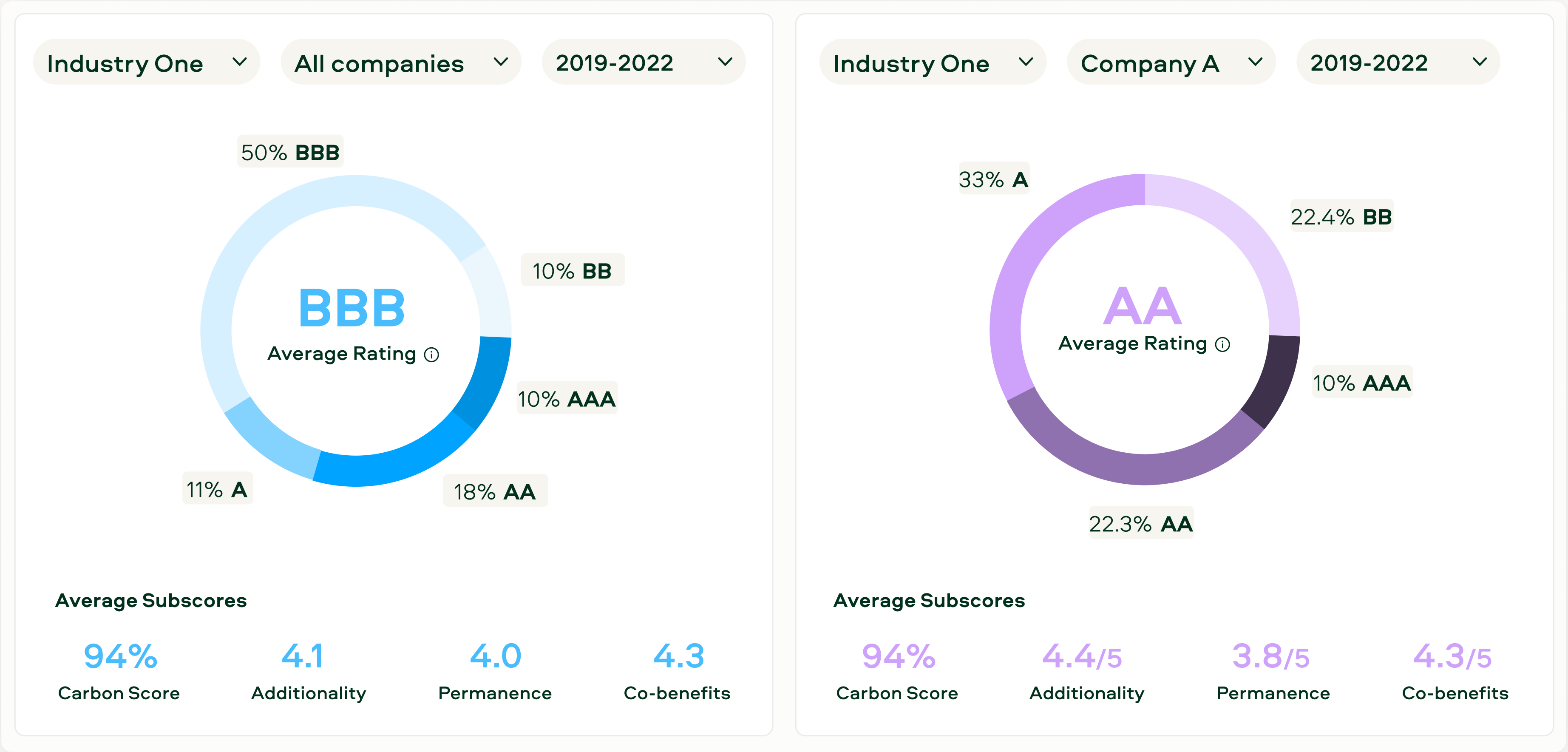
Sylvera's contribution: Carbon Credit Analytics (CCA)

In February 2023, Sylvera launched Carbon Credit Analytics (CCA), to help participants in the voluntary carbon markets access and evaluate the composition of portfolios of carbon credits across 1450 companies and 70 industries.

The product builds on carbon credit retirement data from multiple sources discussed in this paper and enables users to view countries, project types (eg. REDD+, Renewables, Cooksotves, etc) exposure, as well as the integrity of the carbon credits retired using Sylvera's proprietary ratings framework.

As regulations are implemented in the next few years, companies using carbon credits will need to report on their integrity. Sylvera's Carbon Credit Analytics product will help companies in the voluntary carbon markets with the following:

1. **Understand quality of their portfolio of carbon credits against peers**



This shows the quality of a company's portfolio vs their industry average.

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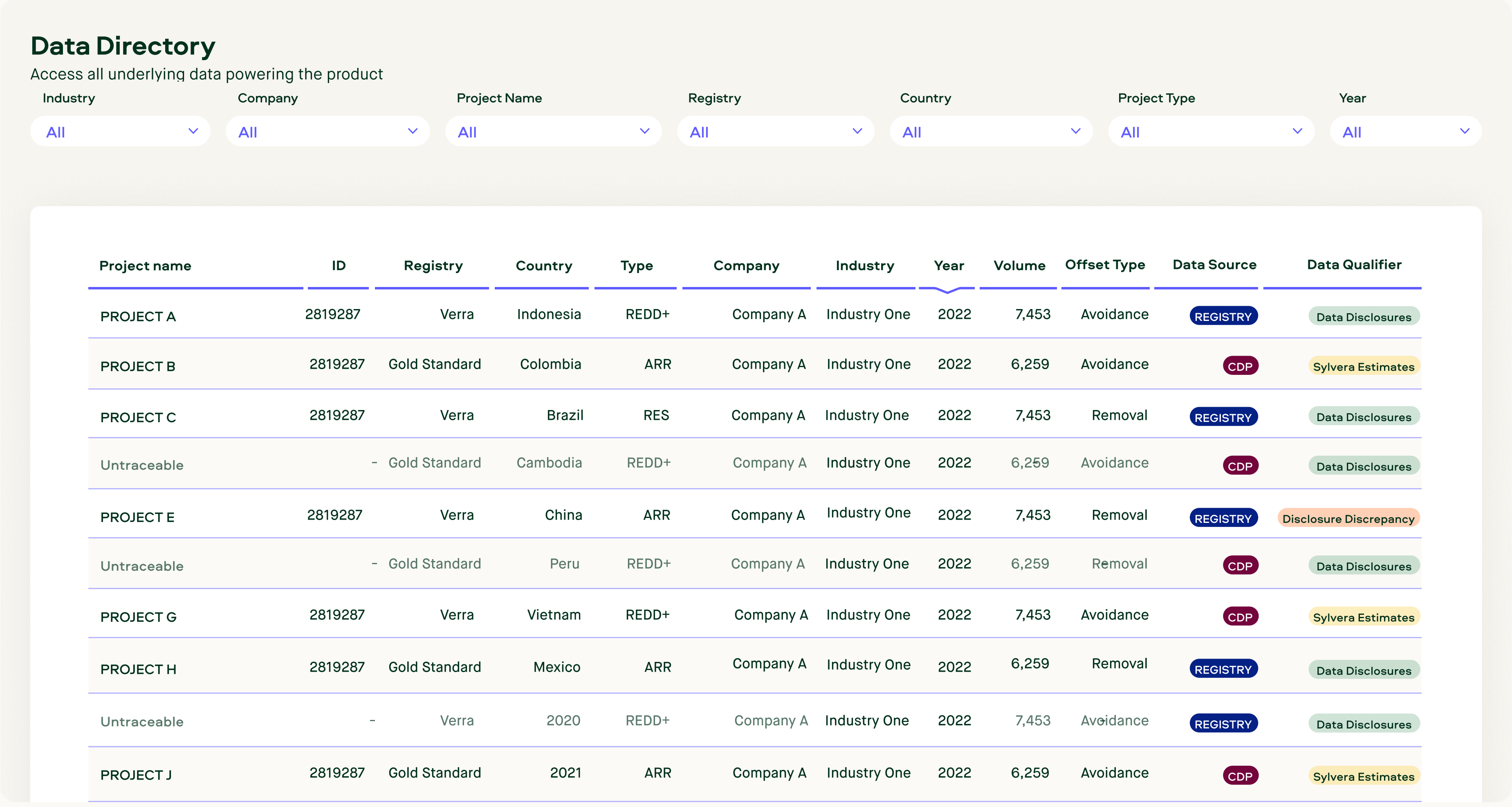
Sylvera's contribution: Carbon Credit Analytics (CCA)

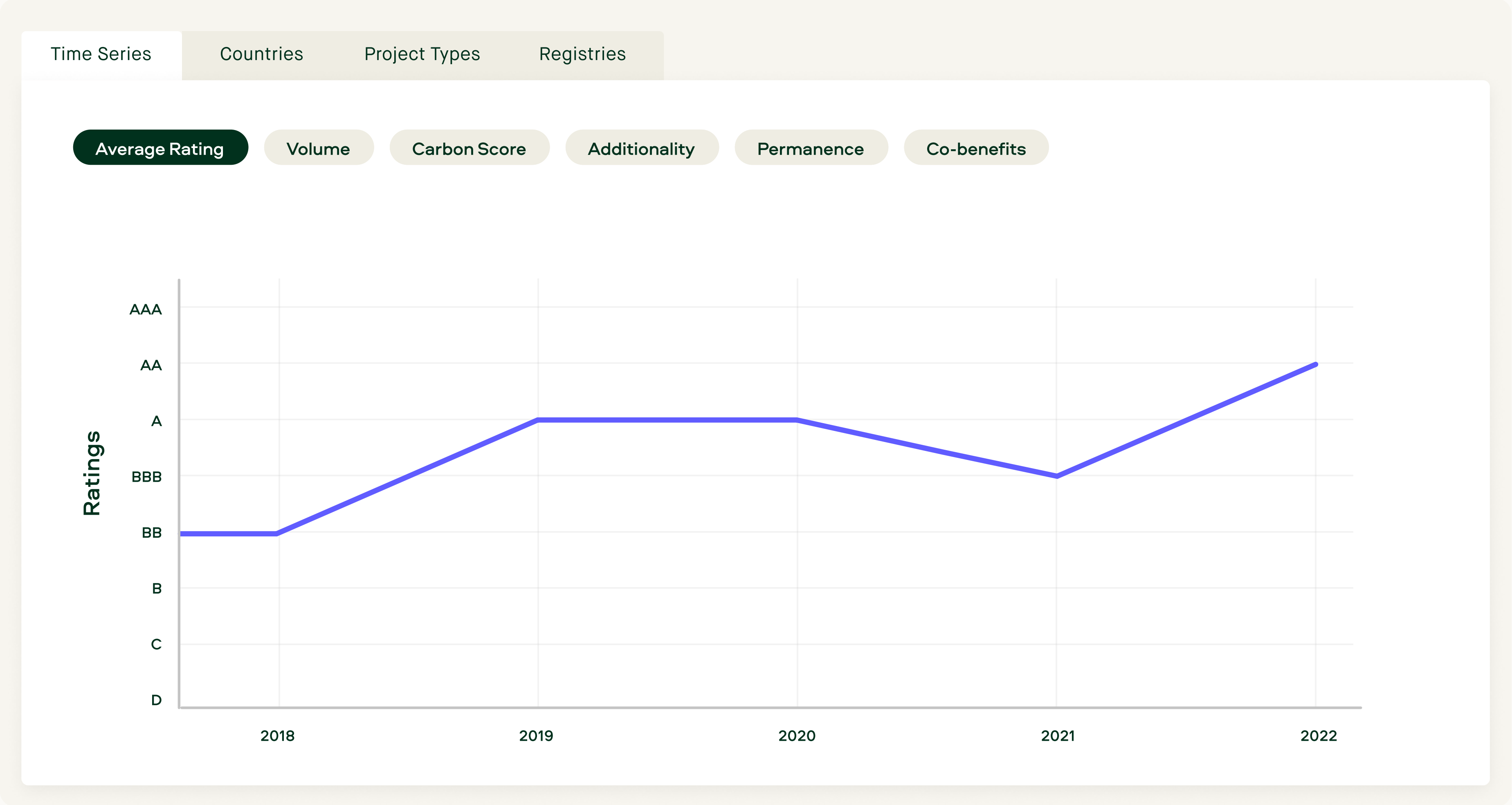
2. Review the composition of carbon credit portfolios



Project name	ID	Registry	Country	Type	Company	Industry	Year	Volume	Offset Type	Data Source	Data Qualifier
PROJECT A	2819287	Verra	Indonesia	REDD+	Company A	Industry One	2022	7,453	Avoidance	REGISTRY	Data Disclosures
PROJECT B	2819287	Gold Standard	Colombia	ARR	Company A	Industry One	2022	6,259	Avoidance	CDP	Sylvera Estimates
PROJECT C	2819287	Verra	Brazil	RES	Company A	Industry One	2022	7,453	Removal	REGISTRY	Data Disclosures
Untraceable	-	Gold Standard	Cambodia	REDD+	Company A	Industry One	2022	6,259	Avoidance	CDP	Data Disclosures
PROJECT E	2819287	Verra	China	ARR	Company A	Industry One	2022	7,453	Removal	REGISTRY	Disclosure Discrepancy
Untraceable	-	Gold Standard	Peru	REDD+	Company A	Industry One	2022	6,259	Removal	CDP	Data Disclosures
PROJECT G	2819287	Verra	Vietnam	REDD+	Company A	Industry One	2022	7,453	Avoidance	CDP	Sylvera Estimates
PROJECT H	2819287	Gold Standard	Mexico	ARR	Company A	Industry One	2022	6,259	Removal	REGISTRY	Data Disclosures
Untraceable	-	Verra	2020	REDD+	Company A	Industry One	2022	7,453	Avoidance	REGISTRY	Data Disclosures
PROJECT J	2819287	Gold Standard	2021	ARR	Company A	Industry One	2022	6,259	Avoidance	CDP	Sylvera Estimates

This shows the different projects, volumes and offset type in a company's portfolio

3. Build better carbon credit portfolios



This shows the average rating of a company's credit portfolio.

The need for better carbon credit disclosure is key to ensuring credits used as part of companies' emission reduction goals are of the highest integrity. While incoming regulations in the US, EU and other jurisdictions will significantly improve disclosures, companies must start tracking and becoming accountable for using high quality carbon credits to compensate for their emissions now.

Using proprietary carbon credit assessment frameworks, **Sylvera Carbon Credit Analytics enables users to assess the integrity of carbon credit portfolios to get ahead of regulations, minimize risks, and increase the chances of achieving emissions reduction goals.**

Find out more about how Carbon Credit Analytics can help your organization de-risk your offsetting investment and optimize your retirement strategies

Contact us

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Who trusts the Sylvera platform?

Our customers and partners span corporate buyers, traders and exchanges. They are often large institutions who have made net zero commitments, and who are the biggest buyers of carbon credits in the market.

Contact us to learn more.

Sylvera's mission is to be a source of truth for carbon markets.

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