How will climate transition planning empower you to shape the future?

EY Global Climate Action Barometer 2024

The better the question. The better the answer.
The better the world works.

Shape the future with confidence

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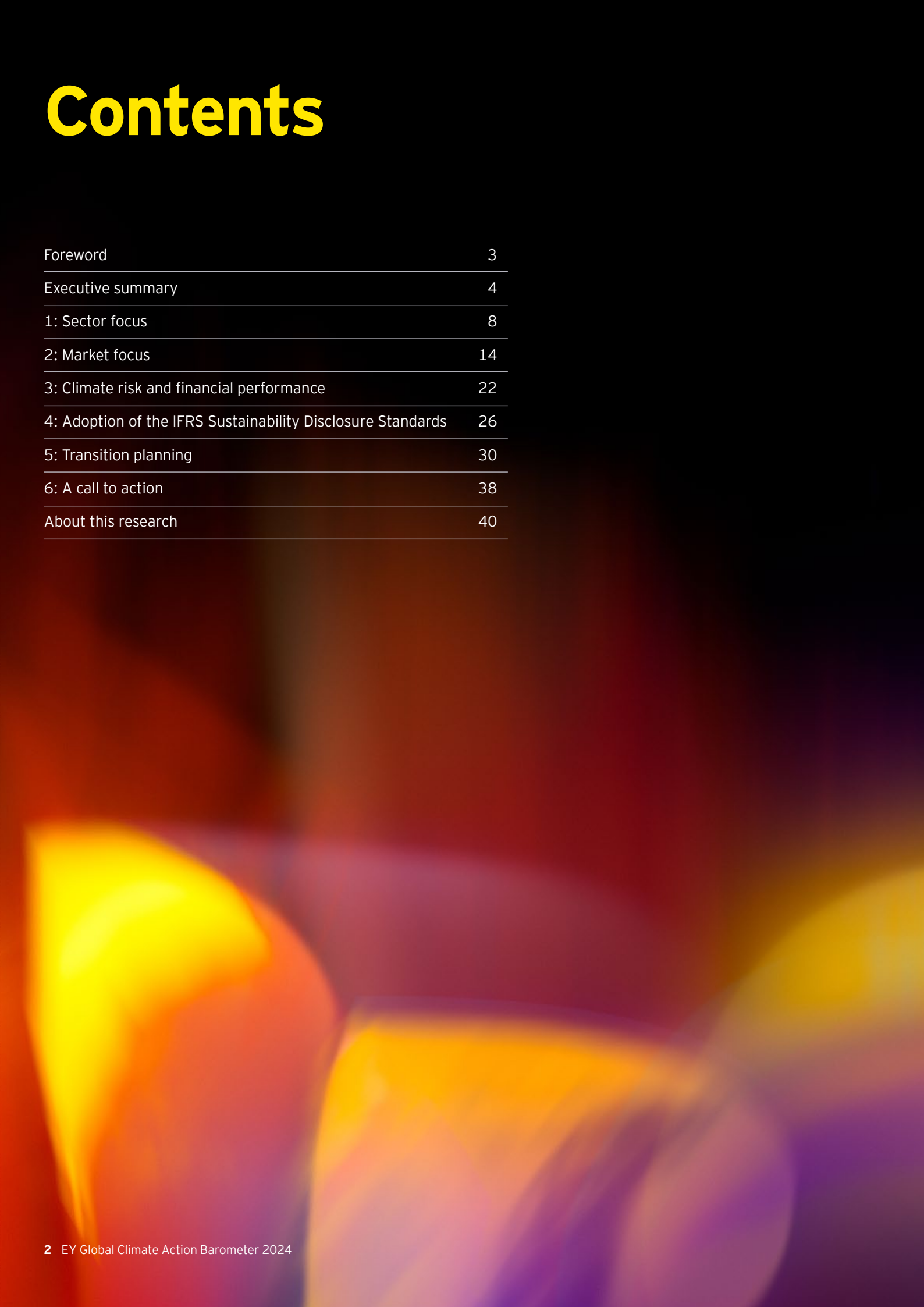


Foreword

Climate change is the greatest existential threat facing humanity today[1] – although you probably wouldn't realize this from the climate disclosures of the world's biggest companies. Most are still not reflecting the physical or transition risks associated with climate change in their financial statements. Neither do many communicate a plan for transitioning to a net-zero economy, with capital and operational expenditures (capex and opex) projections still not in place. The unavoidable takeaway from these omissions is that most companies remain woefully unprepared for the disruption that is upon us.

While it is true that many companies have gradually improved their disclosures over the years, current disclosure quality does not indicate that companies are taking sufficient tangible action to address climate change. As a result, they are not transitioning at the rate needed to hit net zero by 2050 or achieve the goals of the 2015 Paris Agreement.

Inaction – rather than action – has been a familiar theme of this report, which has tracked corporate progress on mitigating climate change for the past six years. So it is disappointing to see the same theme continuing to prevail in 2024.

To help highlight the need for acceleration of climate transition progress, the name of the report has been changed. Previous editions were known as the Climate Risk Barometer. This year, the report has been renamed the Climate Action Barometer.

In addition to its new name, this edition of the Barometer emphasizes the importance of action through its heightened focus on transition planning. It offers insights into why companies are not currently meeting their transition targets or are not disclosing their plans at all – despite mounting scientific evidence of the looming climate crisis across the world and its potential impact on all businesses.

Additionally, the Barometer scrutinizes the lack of connectivity between companies' climate risk disclosures and their financial statements. This is a major concern, given that climate change will almost certainly be a material risk for many – if not all – businesses over the medium to long term.

The disconnect between companies' ambition and action on the decarbonization agenda can be attributed to a range of challenges. These include the pressure to balance profitability with climate goals; the unavailability and expense of low-carbon technologies; a shortage of green skills; a political backlash against sustainability in some markets and sectors; and the very real complexities involved with setting and achieving targets.

Regardless of these challenges, companies' key stakeholders – including investors, regulators, employees and customers – all rightly expect them to act. Last year was the warmest on record, according to the National Oceanic and Atmospheric Administration,[2] while around two billion people are expected to face average temperatures of 29°C or higher by 2030,[3] resulting in more heatwaves, forest fires and drought, with much wider social and economic threats for lives and livelihoods identified by the Intergovernmental Panel on Climate Change and others. Only by taking decisive and meaningful action will we accelerate decarbonization and the energy transition necessary to shape the sustainable future with confidence. It will be a difficult and complex task, but one we must tackle now – for the future of business as well as the future of our world.

Dr. Matthew Bell

EY Global Climate Change and Sustainability Services Leader

Christophe Lumsden

EY Global Climate and Decarbonization Leader

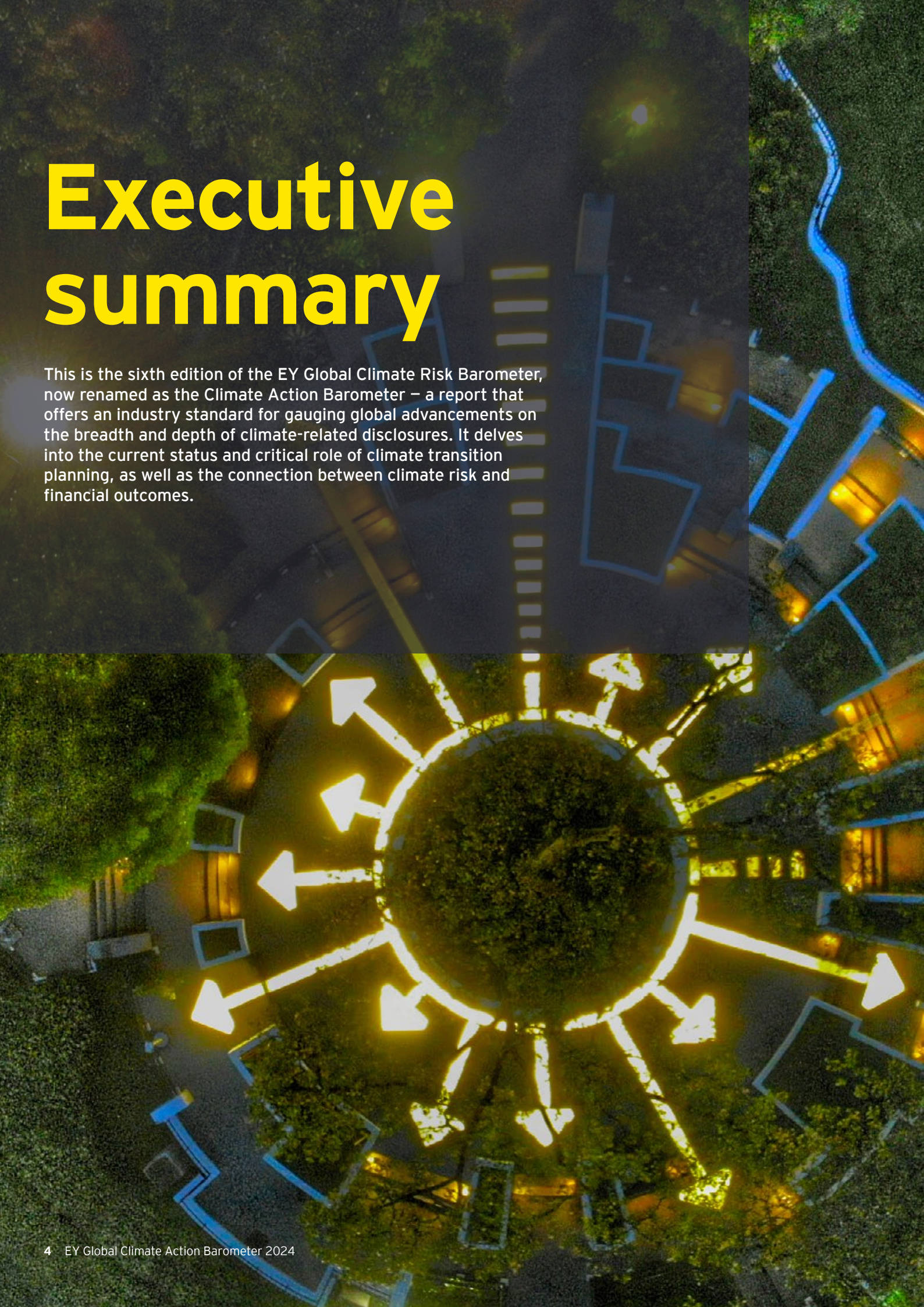
[1] UN Secretary-General António Guterres, https://news.un.org/en/story/2018/05/1009782

[2] "2023 was the world's warmest year on record, by far," NOAA website, noaa.gov/news/2023-was-worlds-warmest-year-on-record-by-far, accessed 5 August 2024.

[3] "Global temperature rise could see billions live in places where human life doesn't flourish, study says," CNN website, edition.cnn.com/2023/05/23/asia/global-warming-billions-dangerous-climate-heat-report-intl-hnk/index.html, accessed 2 September 2024.

Executive summary

This is the sixth edition of the EY Global Climate Risk Barometer, now renamed as the Climate Action Barometer – a report that offers an industry standard for gauging global advancements on the breadth and depth of climate-related disclosures. It delves into the current status and critical role of climate transition planning, as well as the connection between climate risk and financial outcomes.



In the world's top-emitting countries, businesses have alarmingly low rates of transition plan adoption.

The Barometer analyzes the link between companies' climate disclosures and the actions they are taking to drive transition. The report also considers the connectivity with financial disclosures on climate risk. This year, EY teams surveyed around 1,400 companies across 51 countries, operating in 13 sectors, for the analysis.[4]

Key themes emerging from the research:

The quality of corporate climate disclosures is not improving quickly enough to effectively address the accelerating climate crisis:

- Disclosure quality[5] increased to 54% this year, up from 50% in 2023. Despite the coverage score[6] of 94%, the quality of disclosures remains low.
- Although companies might be hesitant to share information with stakeholders, the fact is that reporting requirements, regulations and investor expectations are increasingly calling for more transparency.
- The biggest year-on-year improvement in disclosure quality among other sectors was achieved by mining, with its quality score rising from 51% in 2023 to 58% in 2024. Unfortunately, this is a low bar for a leading sector – a 7% increase is incremental and needs to be improved significantly across the board.
- The highest levels of disclosure quality were recorded in the UK (69%), South Korea (62%), Japan (61%) and Northern, Southern and Western Europe (61%). This is driven by regulatory developments, specifically by the International Sustainability Standards Board (ISSB) voluntary disclosure framework, the IFRS Sustainability Disclosure Standards (ISSB Standards) and the EU's Corporate Sustainability Reporting Directive (CSRD), which is mandatory for companies that fall within scope.
- Similarly to last year, the Middle East ranked lowest out of all regions for disclosure quality, with a score of 29%.

Adoption of transition plans is far too low, all but precluding the world's ability to meet the goals of the 2015 Paris Agreement. This lack of corporate action will intensify the severity of the looming climate crisis:

- Only 41% of companies claim they have adopted a transition plan for climate change mitigation. Such a low uptake indicates that a majority of companies have not yet developed action plans (involving the identification of decarbonization levers).
- The highest adoption of transition plans can be seen in the UK (66%) and the EU (59%), with regulation and reporting requirements likely a key driver. Although promising, these markets are not even close to being the world's top emitters.
- In the world's top-emitting countries, businesses have alarmingly low rates of transition plan adoption. Only one-third (32%) of US businesses have disclosed their transition plans. In China, which is universally regarded as the top emitter, the transition plan adoption rate is at a mere 8%.[7]
- Regardless of whether they have a transition plan, few companies have disclosed on their financial commitment to transition activities – just 4% have disclosed opex and 17% have disclosed capex.

While companies are making more use of scenario analysis to assess their climate risks, they are not connecting the results of this analysis with their financial information:

- Sixty-seven percent of companies have conducted scenario analysis – up from 58% last year.
- Of those companies that have conducted scenario analysis, 71% have undertaken both quantitative and qualitative analysis, referencing various scenarios.

[4] Eleven Taskforce for Nature Related Financial Disclosures (TNFD) sectors, as well as two additional sectors that were identified as high risk and therefore included in the study. These two sectors are retail, health and consumer goods, and telecommunications and technology.

[5] Companies were given a rating based on the quality of the disclosure, expressed as a percentage of the maximum score, should the company implement all recommendations. See "About this research" for more information.

[6] Companies were assigned a percentage score on the basis of the number of Taskforce on Climate-related Financial Disclosures (TCFD) recommendations addressed by them. A score of 100% indicated that the company had disclosed some level of information compliant with each of the recommendations, regardless of the quality of information provided.

[7] This figure is the number of companies publicly declaring a transition plan against the total number of companies in that country.

- Yet only 36% of companies have referenced climate-related financial impact in their financial statements, despite improved levels of climate scenario analysis.
- This year's Barometer shows that companies are undertaking more analyses of both risk and opportunity. Overall, 84% of surveyed companies had conducted a risk analysis (compared with 77% in 2023). Nearly three-quarters (74%) had completed an opportunity analysis (up from 68% in 2023).
- Only one-third (32%) of companies[8] have referenced one or more climate risks with a high financial impact in their disclosures. This hinders companies' ability to assess the quantitative impact of climate on their financial statements.
- Only 17% of companies in the Americas[9] report that climate risk could have a potentially high financial impact on their business. This is despite the US and Canada being among the economies with the highest risk of negative impact on GDP due to climate change.[10]
- Just 20% of climate references in the financial statements are quantitative, e.g., climate-related asset impairment. Alongside asset impairment, the commonly referenced terms relating to financial impact include cash flows, liabilities assumed and property, plant and equipment.

There is an alarming lack of commitment to long-term greenhouse gas (GHG) emission reduction targets:

- Eighty-three percent of companies have set short-term targets (out to 2030). However, barely half (51%) of companies have set longer-term targets, even though a net-zero ambition requires companies to set GHG emission reduction targets in the short-, medium- and long-term.
- Just 24% of companies have their short-term and long-term targets validated by the Science Based Targets initiative (SBTi), although this figure climbs to 41% of companies with an established transition plan.

Companies are failing to take the bold decarbonization action needed. Most favor initiaties addressing Scope 2 emissions and carbon credits rather than fundamental changes to manufacturing processes and supply chains:

- Fifty-five percent of decarbonization initiatives are targeted at Scope 2 emissions, likely due to the economic feasibility, simplicity and availability of solutions.
- Only 43% of companies included Scope 1 decarbonization initiatives, and just 18% of companies included Scope 3 decarbonization initiatives, as part of their transition plan.
- Out of 720 decarbonization initiatives disclosed by companies, operational efficiency projects such as energy saving and process optimization are the top initiatives being reported by companies. However, they are unlikely to have a material impact on most companies' emissions.

A mere 19% of companies have adopted adaptation plans, despite their high awareness of the physical risks:

- This number is frighteningly low, given that 81% of companies have undertaken physical risk analysis.
- Floods and extreme rainfall are the major physical risks addressed by the majority of companies in their adaptation plans.

[8]Of the 1,400 companies, 824 have disclosed their CDP information. This analysis is based on those 824 companies.

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[10]Climate crisis costs the world 12% in GDP for each 1°C temperature rise | World Economic Forum (weforum.org) https://www.weforum.org/agenda/2024/06/nature-climate-news-global-warming-hurricanes/#:~:text=Climate%20change%20costs%20the%20world,times%20larger%20than%20previous%20estimates.


Only
41%
of companies claim they have adopted a transition plan for climate change mitigation.

1 Sector focus

This year's Barometer shines a light on the link between industry sectors and the extent of their climate-related disclosures. Looking at sector-specific data is crucial when it comes to climate-related disclosures because different industries have varying impacts on the environment and are subject to distinct regulatory pressures and market dynamics.

It's evident that even the sectors that are highest performing with regard to disclosures fail to deliver at the speed and scale of improvement needed.

What are disclosure quality and coverage?

Companies were given a rating based on the quality of the disclosure, expressed as a percentage of the maximum score, should the company implement all recommendations.

Companies were also assigned a coverage percentage score based on the number of TCFD recommendations addressed by them. A score of 100% indicated that the company had disclosed some level of information compliant with each of the recommendations, regardless of the quality of information provided.

Refer to *"About this research"* for more information on research methodology.

Compared with 2023, the Barometer shows an overall increase in quality and coverage across both TCFD financial and nonfinancial sectors. Some sectors recorded significant year-on-year improvements in their scores for disclosure quality and coverage.

Companies that disclose through the Carbon Disclosure Project (CDP) global disclosure system are more likely to have higher scores for both quality and coverage across all four TCFD pillars: governance, metrics and targets, risk management and strategy. This is because CDP is aligned with the TCFD framework. CDP is also aligned with IFRS S2 Climate-related Disclosures, European Sustainability Reporting Standards (ESRS) E1 Climate change, and the Securities and Exchange Commission (SEC) climate

Figure 1. TCFD financial sectors and TCFD nonfinancial sectors by quality and coverage

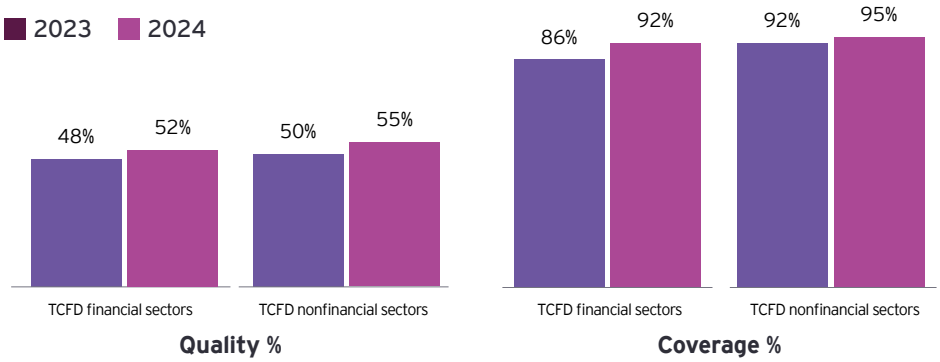


Table 1. Sectors by quality and coverage, comparing 2024 with 2023

Sector	Quality		Coverage	
	2023	2024	2023	2024
Agriculture, food and forest products**	46%	51% ▲	88%	92% ▲
Banks*	46%	52% ▲	86%	92% ▲
Energy**	55%	59% ▲	95%	96% ▲
Financial asset owners and managers*	40%	41% ▲	80%	84% ▲
Insurance*	55%	59% ▲	93%	96% ▲
Materials and building**	54%	56% ▲	95%	95%
Mining**	51%	58% ▲	93%	99% ▲
Other financial Institutions (e.g., exchanges, other financial services providers, rating agencies and credit bureaus)*	54%	57% ▲	84%	94% ▲
Real estate**	48%	51% ▲	91%	92% ▲
Retail, health and consumer goods**[1]	50%	55% ▲	92%	96% ▲
Telecommunications and technology**[1]	52%	55% ▲	91%	94% ▲
Transportation**	50%	56% ▲	90%	96% ▲

*Financial sector **Nonfinancial sector

[1] These sectors are not part of TCFD sector classification, but they were identified as high-risk sectors by sector leads in the 2021 study.

[11] "Other financial institutions sector" refers to exchanges, other financial services providers, rating agencies and credit bureaus.

disclosure rule. CDP's climate-related questionnaire also encourages companies to disclose more granular information.

The most notable improvement in disclosure quality was observed in the mining sector, which is under global pressure to improve its environmental, social and governance (ESG) performance. Its quality score went up by 7%, from 51% to 58%. Banking and transportation – two sectors that are also heavily exposed to transition risk – both saw their quality scores increase by 6%. However, despite these increases, even the sectors that are highest performing with regard to disclosures fail to deliver at the speed and scale of improvement needed.

Coverage has significantly improved across sectors since last year, with the greatest score improvements seen in the other financial institutions[11] sector (+10%), along with banking, mining and transportation (all +6%).

Scenario analysis

Scenario analysis is critical for helping companies in different sectors to plan their transition to a low-carbon economy – and they increasingly recognize this. The Barometer found that 67% of companies had undertaken scenario analysis, up from 58% last year.

Of those that had undertaken scenario analysis, 29% had undertaken qualitative analysis only, while 71% had undertaken both qualitative and quantitative disclosures. The majority of sectors reported using Intergovernmental Panel on Climate Change (IPCC) scenarios in their analysis. Although representative concentration pathways (RCPs) are the most preferred option, shared socioeconomic pathways (SSPs) have started to gain traction this year. This uptake of SSPs highlights companies' awareness that climate change is part of a broader socioeconomic context. The energy and materials and building sectors are using the International Energy Agency (IEA) Net Zero Emissions by 2050 Scenario (NZE Scenario) more than other sectors due to its usefulness as a carbon price scenario.

The most commonly referenced scenarios were RCP 8.5, IEA NZE Scenario, RCP 2.6 and RCP 4.5, showing that companies were considering a broad range. The RCP 8.5 scenario is effectively a worst-case scenario where there is no significant change in policies to reduce emissions, leading to an increase in the physical risks of flooding, heatwaves, storms, droughts and heavy rainfall. At the other end of the spectrum, IEA NZE Scenario assumes that net zero will be achieved by 2050.

Banks, insurers and financial asset owners and managers are most likely to use scenarios developed by the Network for Greening the Financial System (NGFS).

Companies that qualified for both qualitative and quantitative disclosures had reported against any of the following:

- Evaluation of exposure of physical locations to climate hazards, e.g., quantification of how physical risk could potentially impact on operations
- Possible impacts of climate-related transition risks on business and strategy, e.g., detailed futuristic changes under a considered scenario, which might involve investment in clean energy against a different time period or target year
- Percentage of the organization's revenue considered under the scope of analysis
- Alignment with temperature goals (e.g., 2°C, well below 2°C, 1.5°C) and the likely impact of this

Risks and opportunities

This year's Barometer shows that companies are undertaking more analyses of both risk and opportunity. Overall, 84% of surveyed companies had conducted a risk analysis (compared with 77% in 2023). Nearly three-quarters (74%) had completed an opportunity analysis (up from 68% in 2023).

Compared with last year, companies have paid more attention to both physical risks (such as the impact of extreme weather events on operations) and transition risks

Figure 2. Did the company mention they conducted scenario analysis? If yes, what was the type of scenario analysis?

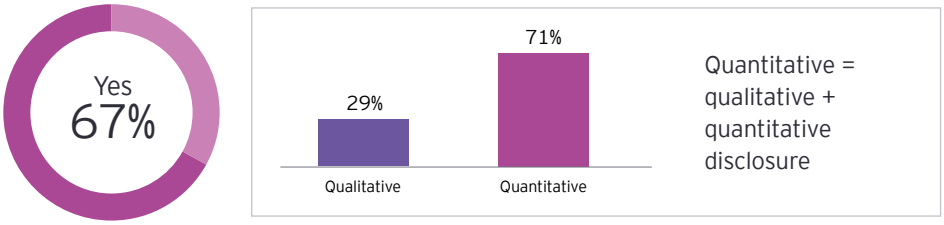


Figure 3. Type of scenario analysis

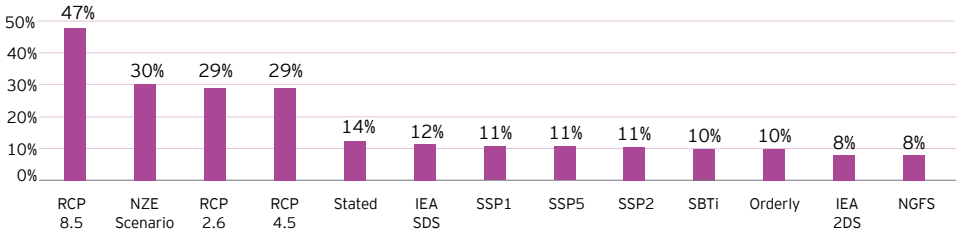


Figure 4. Both physical and transition risks attracted nearly equal focus

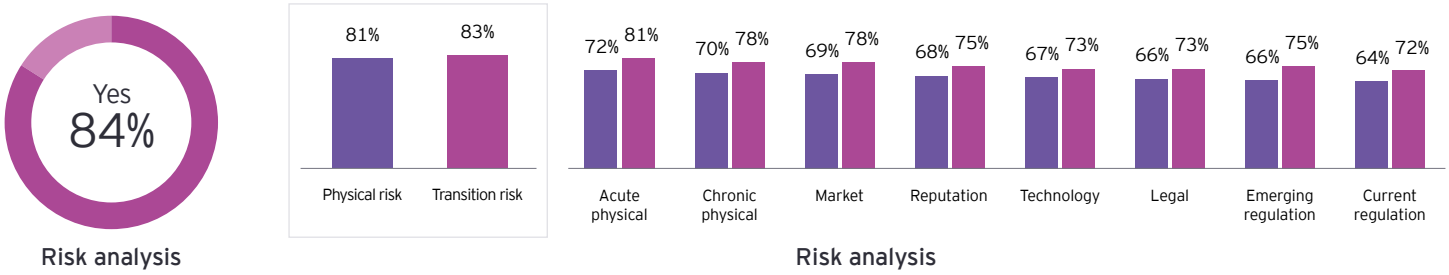
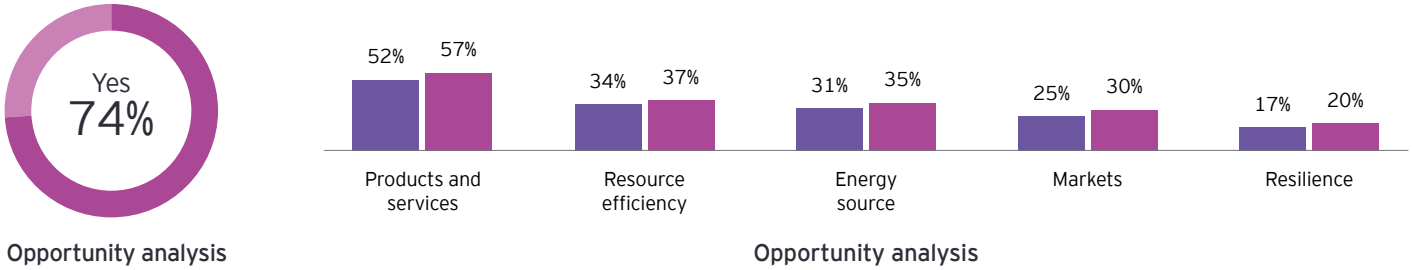


Figure 5. Products and services was the most common listed opportunity



(such as legal, policy and regulatory risks). Physical risks – acute and chronic – and transition risks – market and reputation – continue to be the most commonly referenced risk types.

The products and services category is the most frequently cited opportunity across sectors by a wide margin. Other areas of exploration include resource efficiency and among the energy sources.

So there is scope for companies to consider whether they are adequately referencing all the opportunities facing their business during the transition to a net-zero economy.

Figure 6. Common risk types by sector

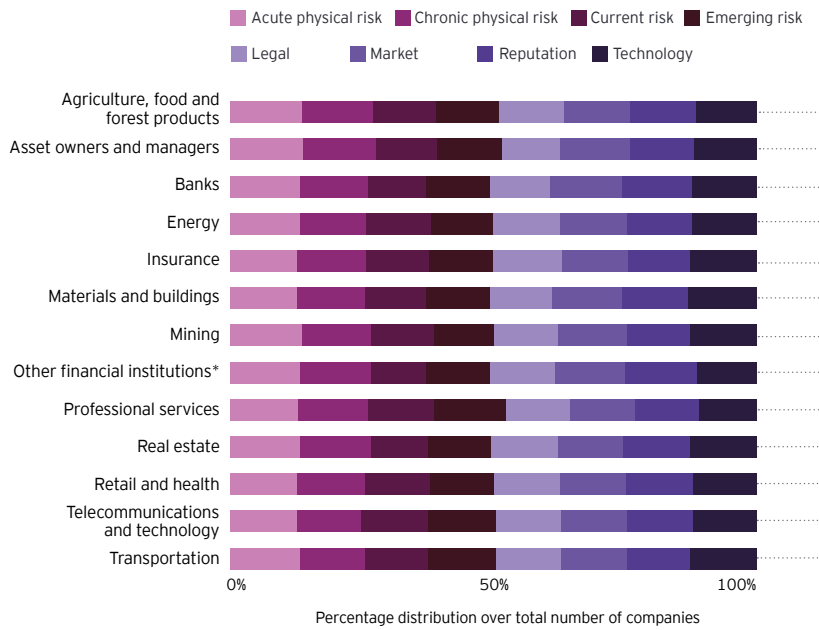
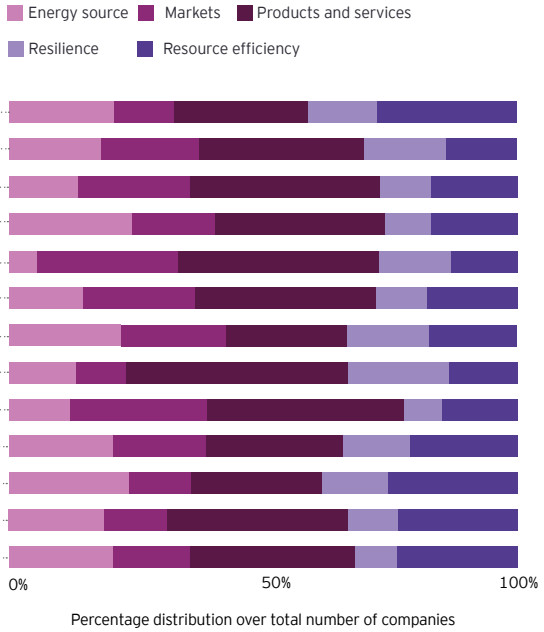


Figure 7. Common opportunity types by sector



*(e.g.,exchanges, other financial services providers, rating agencies and credit bureaus)

Spotlight on energy

Fiona Hancock
Climate Change and Sustainability Services Partner, Ernst & Young Australia

As the energy sector[12] enables decarbonization across other sectors, its approach to transition planning will significantly influence global efforts to achieve the net-zero ambition. Overall, 43% of the energy companies assessed for the Barometer had disclosed a transition plan. While this figure is higher than the cross-sector average score of 41%, it is nowhere near as high as it needs to be, given the criticality of energy to transition. What's more, only 30% of energy companies with a transition plan (or 13% of energy companies assessed overall) disclosed their capex investment in climate initiatives, and just 9% (less than 4% of energy companies assessed overall) disclosed their opex investment, all but precluding outsiders' understanding as to whether and how this hard-to-abate sector is spending and investing to hasten the transition.

Many energy companies may be cautious about disclosing details of capex and opex due to concerns of perceived competitiveness, given major projects require considerable up-front capital coupled with delayed cash flow. A linked concern is that the critical technologies required for oil and gas to transition — including hydrogen electrolyzers and carbon capture and storage — remain expensive and uncertain, thereby presenting a different risk profile to traditional investment in the sector. In most geographies, transition is an easier strategy for utility companies than it is for oil and gas, due to the relative maturity and low cost of renewable generation.

Like other sectors, the energy sector is not adequately referencing the financial risk of climate change in its financial statements. Only 24% are currently disclosing the quantifiable impacts of climate on their business, despite the sector being highly exposed to transition risk.

The lack of connectivity between climate risk and the financial statements may be due to energy companies' sustainability and finance teams not working closely together. Another issue is the lack of clarity over how uncertainty should be considered within the context of financial impact. When companies potentially face different scenarios, it can seem hard to calculate the financial impact of transition or physical risks with confidence.

ISSB is developing examples of how climate risks can be quantified within the financial statements. These examples will provide further tools to facilitate the quantification of risk.

Energy companies' reluctance to publish transition plans and disclose the financial impact of climate risk could potentially harm their competitiveness in the medium- to long-term. Increasing stakeholder pressure facing the companies in the industry and the lack of disclosure might render them less credible with their stakeholders and potentially create the appearance that they are ill prepared for the future of sustainable energy.

Regardless of what is being publicly disclosed in a summarized financial statement disclosure, there is ample proof that the oil and gas sector is making significant investments in large-scale capital projects driving real decarbonization. While still tied to a strong profit motive, oil and gas companies are taking full advantage of government incentives, such as the Inflation Reduction Act (IRA) in the US, to subsidize infrastructure investments required to help accelerate decarbonization. Increasingly, actions from Europe such as CBAM and the EU Methane Regulation are driving action globally, either tied to tax avoidance or market access.

Working to create an environment in which this disclosure is either mandated or presents more value than risk to an energy company will allow for more visibility into the action that energy companies are taking to drive the energy transition.

Sempra

One of the top performers in the Energy Sector on quality* (score: 44)

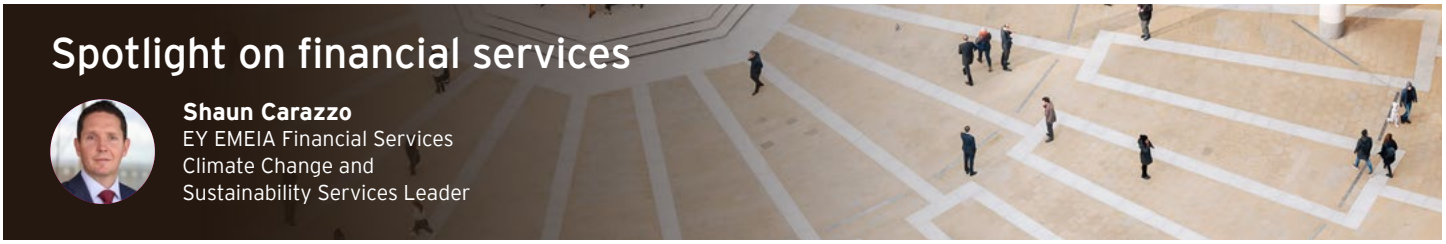
Sempra is committed to leading the energy transition by investing in infrastructure to support net-zero energy systems, while providing access to secure, affordable and cleaner energy for all. As part of this, it is committed to decarbonizing not just its operations but also enabling the decarbonization of the markets it serves including the transportation and industrial sectors. The "3Ds" goals — decarbonization, diversification and digitalization — guide Sempra's push to increase access to clean fuels and enhancing energy networks with renewables and storage solutions.

By embedding sustainable practices and ethical governance at its core, Sempra is not only advancing its mission to decarbonize but also actively contributing to community resilience and innovation. Sustainable business practices are embedded at the core of the company, starting with robust governance and oversight by the board and permeating all levels of the organization. This focus on sustainability fosters a culture focused on positive impact, driving key initiatives that manage risks and seize opportunities. Sempra prioritizes community engagement, building resilience through partnerships, education and direct involvement in local development projects. It addresses climate impacts with a focus on aiding disadvantaged communities, ensuring wide-reaching benefits of its sustainability actions.

*According to the Barometer research.

[12]The Barometer research included the following organizations in the energy sector: oil and gas companies, and power companies.

Spotlight on financial services



Shaun Carazzo
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Sustainability Services Leader

Improvement in climate disclosure coverage and quality within financial services is being driven by several factors. The first is the rise of mandatory climate reporting due to the CSRD and various jurisdictions preparing to adopt the ISSB's disclosure framework. Secondly, there is pressure on financial institutions from investors, who expect them to provide more transparent, robust and detailed disclosures around their climate-related metrics. Additionally, as corporate clients improve the quality of their disclosures, they can provide higher-quality data that banks and insurers can use to inform their decision-making and improve their own disclosures.

This year's Barometer shows that disclosure quality in financial services has improved year on year. Nevertheless, banks and insurers are less likely than many other sectors to produce transition plans. Overall, 37% of banks, 36% of insurers and 17% of financial asset managers have produced a transition plan at the portfolio level, compared with the cross-sector score of 41%.

There are a couple of likely explanations for why banks and insurers appear to be behind on their transition planning. One is they can't access the client data that will allow them to provide sufficiently transparent transition plans. Secondly, their ability to commit to a transition plan relies – to a large extent – on policies and frameworks that governments have yet to put in place. As an example, home retrofits are a significant issue for retail banks with large mortgage portfolios. To reduce their Scope 3 emissions, they need governments to develop policies for funding retrofits and reducing houses' emissions.

Without greater visibility over policy, banks and insurers will be wary of committing to robust transition plans. This means that short-term improvement will be unlikely unless they are mandated to produce transition plans by their local regulator, or they are required to produce transition plans to comply with the ISSB's framework. As countries revise their Nationally Determined Contributions (NDCs) with the aim of achieving net zero by 2050, banks and insurers may also come under greater pressure from their investors and other stakeholders to publish transition plans.

Further, banks and insurers are less likely than other sectors to disclose the quantitative financial impact of climate change on their financial statements.

This is probably due to the average duration of the lending and coverage they provide. Typically, the financial statements of banks and insurers take a short-term perspective, while climate risks have a longer time horizon. However, banks and insurers are highly exposed to the financial impact of climate risks over the medium to long term, so this should be reflected in their scenario analysis as they comply with the CSRD and the ISSB framework.

Lloyds Banking Group plc

One of the top performers in the Financial sector on quality* (score: 44)

Lloyds Banking Group has positioned itself as a proactive leader in the journey toward a more sustainable and inclusive future, underpinning its corporate purpose of Helping Britain Prosper with tangible commitments and actions. Central to its strategy is the ambitious goal to significantly reduce the carbon emissions it finances by more than 50% by 2030, aiming for net-zero by 2050 or sooner. This commitment extends to halving the carbon footprint of its investments by the same deadline, alongside a pledge to slash its supply chain emissions by 50% and achieve net-zero operations by 2030, with a notable target of reducing its direct carbon emissions by at least 90%. These targets underscore Lloyds Banking Group's dedication to not only mitigating its environmental impact but also fostering a greener, more resilient economy. It also has a transition plan in place.

Beyond its internal sustainability measures, Lloyds Banking Group emphasizes the power of collaboration in amplifying its impact. As a founding member of the Net-Zero Banking Alliance and an active participant in the Financial Services Taskforce, it leverages its influence and resources to drive broader industry shifts toward sustainability. Moreover, it has recently collaborated with the UK Soil Association Exchange, helping to conduct one of the most comprehensive review of farm environmental performance carried out in the UK. The report has resulted in over 4,000 bespoke recommendations to almost 700 farmers across the UK.

*According to the Barometer research.

2 Market focus

Some markets are forging ahead with their climate-related disclosures, while others are striving to bridge the gap. Dive deeper to uncover the factors that put some markets at the forefront and leave others trailing.

A more concerning potential reason for little progress on climate-related disclosure quality is that companies may not have a positive story to tell. In other words, they aren't currently taking sufficient action on climate and don't want to publicize that fact.

The Barometer highlights a year-on-year improvement in both the coverage and the quality of climate disclosures. This improvement is being driven by the ongoing regulatory push for companies in different jurisdictions to produce accurate and comprehensive sustainability reporting.

Globally, coverage has increased from an average score of 90% in 2023 to 94% in 2024. Quality has also improved, rising from an average score of 50% in 2023 to 54% in 2024. However, this change has been incremental, despite the significant level of improvement required.

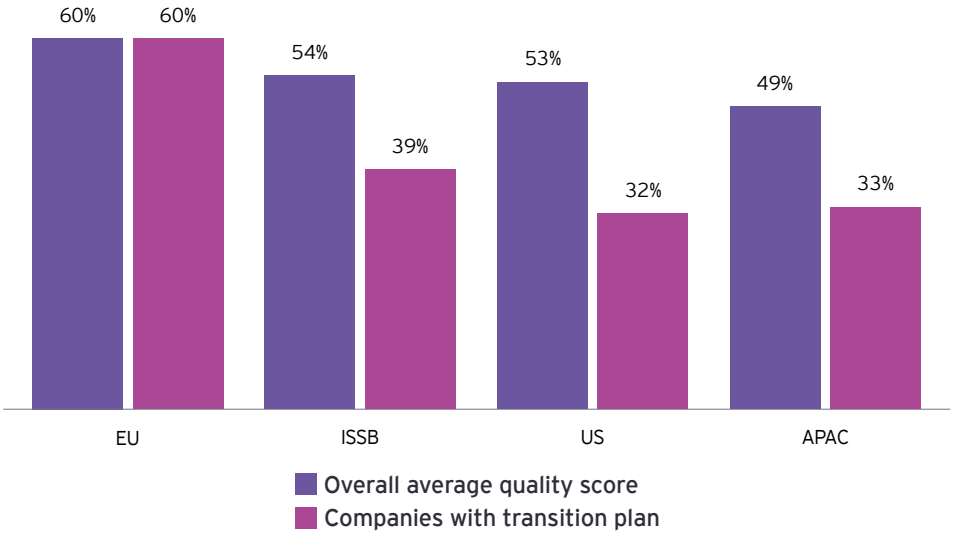
Mandatory climate reporting regulations are largely responsible for jurisdictions with the highest quality scores, specifically the following markets:

- The UK (which has a quality score of 69%) is now reporting against the mandatory TCFD Standards.
- The EU (which has a quality score of 60%) is now reporting against the mandatory CSRD requirements.

Companies in these two markets are also most likely to have a transition plan. Despite both markets being leaders in how well they disclose their climate-related disclosures, neither of them is considered a significant emitter, in contrast to markets such as the US, India, Canada and China.

By comparison, in other countries that are committed to, or planning to adopt, a set of recently introduced voluntary sustainability disclosure standards such as IFRS S1 and IFRS S2 by the ISSB, quality is on par with the average score of 54%. There is also a lower likelihood of companies in these countries having a transition plan.

Figure 8. Average quality scores vs. transition plan across region



One of the major reasons for little progress on climate-related disclosure quality is because companies are wary about giving away too much information. There is growing concern around the risk of greenwashing allegations and exposure to potential litigation from key stakeholders, including investors, arising because of incorrect or unsubstantiated claims and failure to deliver on intended strategy.

This is probably of more immediate concern in Europe, the UK and the US, where there have been examples of stakeholders taking legal action based on misleading climate-related claims.

What is important, though, is that these risks can be managed if approached correctly. The advantages of having visible, clear and well-considered sustainability disclosures and transition plans are beginning to be more understood, particularly how effective ongoing dialogue with key stakeholders can reduce risk, identify value and, importantly, allow disclosing organizations to better control the narrative.

Having an integrated approach of consulting and seeking legal advice is going to be key to utilizing disclosures and transition plans for upside gain rather than downside risk.

However, a more concerning potential reason for the slow progress on disclosure quality is that companies may not have a positive story to tell. In other words, they aren't currently taking sufficient action on climate and don't want to publicize that fact. So they only disclose the kind of information that is necessary to comply with their mandatory reporting obligations. This argument would seem to be supported by the 2023 EY Sustainable Value Study, which found that business progress on sustainability initiatives is slowing as early phases focused on "low-hanging fruit" come to an end.[13] The slight uptick in disclosure quality overall should therefore serve as an urgent call to action for companies to intensify their efforts in combatting climate change.

Regional variations

There continues to be notable variations between markets in terms of both the quality and quantity of their disclosures. This is largely due to differences in regulatory environments, with some markets being more ahead than others on mandatory climate reporting.

The Middle East, Southeast Asia and India remain relative laggards compared with the UK, South Korea, Japan and Southern, Western and Northern Europe, which lead on quality while also boasting high coverage scores. These leading markets benefit from several years' compliance with the TCFD framework, which is mandatory for certain entities in some of those areas. They may also be subject to complementary legislation and standards, such as the EU's mandatory CSRD and European Sustainability Reporting Standards (ESRS).

China, the world's largest annual GHG emitter, has not recorded a year-on-year increase in disclosure quality, despite aligning its climate reporting with the recommendations of the TCFD framework. Hopefully, there will be greater improvement once the country adopts the ISSB's disclosure framework as planned.

Underperforming markets

Even though the Barometer highlights a major year-on-year jump in disclosure quality for the Middle East, southeast Asia and India, quality in these regions still remains critically low. All three markets have seen their reporting quality improve by more than 20% since last year's study, with some key developments helping to drive change, but their scores continue to lag behind other markets.

Middle East

In the Middle East, climate reporting by public companies is still largely done on a voluntary basis. Nevertheless, companies are increasingly choosing to report to meet the expectations of stakeholders who want them to act on climate issues and better integrate sustainability into their strategy and operations. In 2023, the Gulf Cooperation Council (GCC) Exchanges Committee introduced the Unified ESG Metrics for GCC Listed Companies. This voluntary framework aims to promote consistency and comparability in ESG reporting across GCC countries.

Southeast Asia

From 2025, Singapore will be phasing in mandatory climate reporting that is aligned with the ISSB disclosure framework for listed companies and large non-listed companies. Climate reporting is already compulsory for public companies in several sectors. Malaysia has plans to require companies listed on its main market to publish mandatory TCFD-aligned disclosures. Meanwhile, the Philippines requires all publicly listed companies to comply with sustainability reporting guidelines and is evaluating whether to implement IFRS S1 General Requirements for Disclosure of the ISSB standards.

Another driver of improved reporting quality in southeast Asia is the EU's Carbon Border Adjustment Mechanism (CBAM) regulation, which took effect in October 2023. CBAM imposes charges on certain imported goods that are produced through carbon-intensive means and are at significant risk of carbon leakage. Initially, the charges will apply to goods in five sectors – electricity, iron and steel, fertilizers, aluminum and cement – although the scope will be widened over time.

As Southeast Asian economies are major exporters to the EU, they will be exposed to potential CBAM charges. Additionally, EU importers of goods within scope of the new rules must report on the GHG emissions embedded in their imports. As a result, they need their southeast Asian suppliers to provide them with the relevant information.

India

India now requires its 1,000 largest companies by market capitalization to produce a business responsibility and sustainability report that includes their Scope 1 and 2 emissions. The Indian central bank has also introduced rules requiring banks in the country to report on their climate practices across governance, strategy, risk alignment and target setting, in line with the TCFD's four-pillar structure. These rules will be phased in from 2026, based on data for the 2025–26 financial year. India is one of the world's top three emitters, but the country's overall performance in 2024 has shown an upward trend, with a quality score of 45% (compared with 36% in 2023) and a coverage score of 89% (an improvement from 78% in 2023).

Figure 9. Improvements in quality across all markets

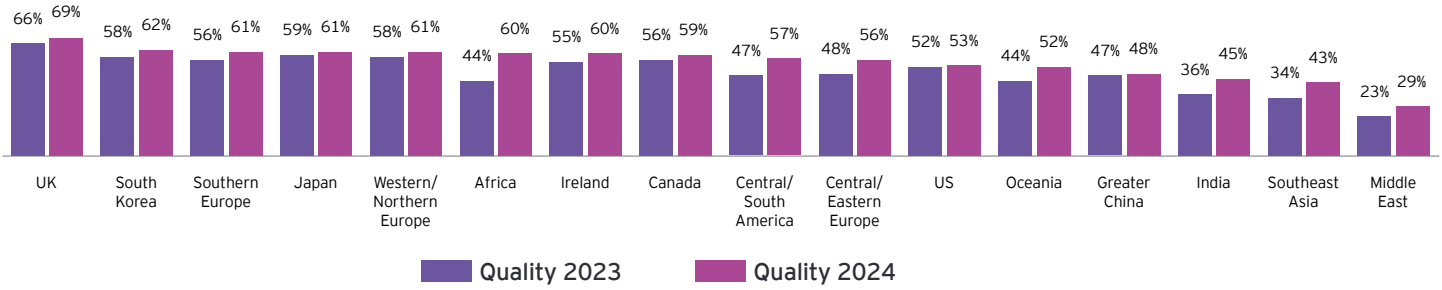
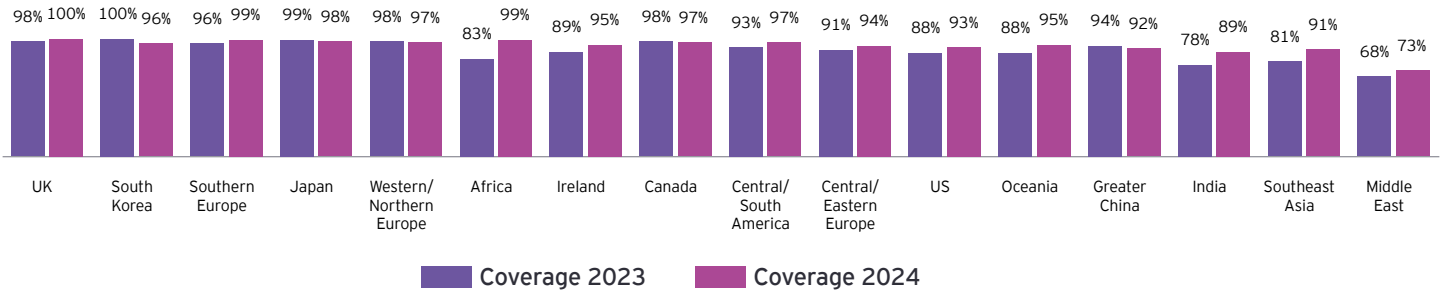


Figure 10. Some notable improvements in coverage in many markets



Why the public sector needs to be involved in climate-related reporting

Governments and the public sector are pivotal in helping businesses transition to sustainable practices and achieve net-zero targets. They can encourage businesses through regulatory frameworks that mandate sustainable practices, such as setting emissions targets, mandating renewable energy use and enforcing environmental protection laws. Financial incentives such as tax breaks, grants and subsidies make it economically viable for companies to adopt sustainable business models.

Public-private partnerships drive innovation and investment in sustainability, developing new technologies and infrastructure. Government funding for research and development accelerates the creation of sustainable technologies, reducing environmental impact. Additionally, governments can lead by example through procurement policies that favor sustainable options and by investing in infrastructure such as competitively priced renewable energy. The regular global review of the NDCs in 2025 will highlight each country's commitments to reducing GHG emissions and adapting to climate impacts.

The private sector, which has a vital role in addressing climate change, needs to understand and manage its contribution to the problem at hand for NDCs to be effective. By setting clear targets for private business contributions, ensuring efficient and transparent monitoring processes, and providing support to ensure the engagement of organizations, governments can help private entities to stay on the path toward net zero.

[13] *EY Sustainable Value Study*, EY, 2023.

Americas spotlight

Shannon Roberts
EY Americas Climate and Decarbonization Solutions Leader

Coverage of climate disclosures by US companies has improved over the past year, increasing from 88% to 93%. Improvement in disclosure quality is more marginal, however, in line with many other markets. The improvement in disclosure coverage is notable, given the US does not yet have mandatory climate reporting and is experiencing some political backlash against the global energy transition.

US companies are aware that they need to manage their climate risk and that the transition to a low-carbon economy continues to be the direction of travel over the medium- to long-term. Similarly, the global shift toward climate reporting is only going to intensify rather than abate. Some anticipated and confirmed regulatory developments, both in the US and overseas, have also influenced companies' approach to disclosure.

In March 2024, the Securities and Exchange Commission (SEC) passed a new rule creating mandatory climate-related reporting requirements for public companies.[14] It appeared to represent a great step forward for US climate reporting but, within a month of adopting it, the SEC issued an order staying the rule.[15]

In 2023, the State of California enacted climate emissions disclosure and climate-related financial risk reporting laws,[16] [17] which were signed into effect in October 2024.

Another major legislative development to impact on US companies is CSRD.[18] As many of the US companies are global businesses with EU operations, they fall within scope of the CSRD. While they could initially limit their climate risk reporting to the activities of their EU entities, many are choosing to adopt global reporting from the outset. This is despite US parent companies not being required to provide consolidated global reporting for all operations until 2029, based on 2028 financial year data.

> Only 32% of US companies featured in the Barometer have disclosed their transition plans.

Only 32% of US companies that feature in the Barometer have disclosed their transition plans. This is probably because they are cautious about disclosing plans that may not yet be sufficiently detailed or that do not suggest they have climate risk mitigation and decarbonization under control. This is a cautionary sign that despite many companies developing climate strategies to tell their stories about how they plan to decarbonize, including companies in the oil and gas and utilities sectors, they are unfortunately unwilling to make public commitments on their transition planning.

In the Latin American countries of Brazil, Chile, Colombia and Mexico, climate disclosures have been gaining momentum with the adoption of the ISSB framework. Despite this progress, the companies participating in Barometer lag 6% behind their European peers, and only 38% have established a transition plan – similar to the global average.

The region has demonstrated a significant improvement in disclosure quality, with a 15% increase from 2022 to 2024, achieving an average quality score of 56%, which compares with the 54% globally. Notably, the targets and metrics pillar shows advancement in the region, surpassing the global metrics. This advancement exceeds the 6% rise seen across the Americas, although it partly reflects the region's lower initial quality scores. Latin American companies have slightly higher (3%) quality and coverage scores in most TCFD categories, with the energy, mining, banks, and agriculture sectors leading the way in high-quality disclosures.

A key practice for Latin American companies to improve their transition plan financial readiness is to adopt a quantitative approach referencing climate-related risks and opportunities in their financial reporting, since only 26% of Latin American companies do so – even lower than the 36% globally.

[14] The rule begins with annual reports for the year ending 31 December 2025. The rule requires companies to include information on the financial impact of climate risk in the footnotes to their financial statements. This information includes details of the material impact of severe weather events, as well as climate-related targets and transition plans, financial estimates and assumptions.

[15] The stay was in response to several legal petitions, asking for the rule to be reviewed. As a result, it is currently not clear when – or indeed if – the rule will be enforced, with the uncertainty likely to persist for some time.

[16] Technical Line: A closer look at California's recently enacted climate disclosure laws, EY, 4 April 2024.

[17] This legislation requires both private and public companies that meet certain criteria and conduct business in California to report on their climate-related financial risks. Under the legislation, Scope 1 and 2 emissions reporting was due to begin in 2026, with Scope 3 emissions reporting to begin in 2027.

[18] Tomlinson, B, "Corporate Sustainability Reporting Directive: the rush to get ready," EY, 22 November 2023.

Europe spotlight

Frederic Papon
EY Europe, Middle East, India and Africa (EMEIA)
Climate and Decarbonization Solutions Leader

Europe is a worldwide leader in transition planning, largely due to the EU's CSRD and the UK's Transition Plan Taskforce (TPT). Overall, 66% of UK companies and 59% of EU companies included in the Barometer have disclosed transition plans.

From a transition planning perspective, the CSRD is significant in that it is the first regulation to specifically define a transition plan. The directive does not require companies to implement a transition plan if they do not already have one. As the Barometer shows, however, companies do not appear to be mature enough to formulate elaborate transition plans, resulting in a limited number of opex and capex investments being disclosed.

Companies will also need to get used to disclosing the impacts of climate risk in their financial statements. The CSRD will phase in a requirement for them to disclose the connectivity between their sustainability strategy and their financial statements with effect from 2027.

> Europe is a worldwide leader in transition planning.

In the UK, the TPT has launched a disclosure framework with the aim of supporting companies in developing robust and credible transition plans that inform the disclosure requirements in IFRS S2. While the framework is currently voluntary, the UK is committed to moving toward mandatory publication of transition plans. Already, rules issued by the Financial Conduct Authority require listed companies to make TCFD-aligned disclosures on a comply or explain basis, including their plans for transitioning to a low-carbon economy.

Due to the greater transparency demanded by the CSRD and the TPT, companies lacking a transition plan are likely to face intense scrutiny from their stakeholders going forward. This should lead to increased disclosure of more detailed transition plans by European companies over the coming years, which will be reflected in the findings of the Barometer.

Having this information in the future will hopefully raise awareness around common approaches to decarbonization, including opportunities for collaboration, provide confidence on companies' achieving their long-term net-zero targets, and help catalyze competitors in other markets to take action.

[19] Nevertheless, it requires them to disclose their plan under ESRS E1 Climate change if they have one in place at the time they make their sustainability disclosures. The same principle applies to physical risk adaptation plans.

Asia-Pacific spotlight

EY Arina Kok
Asia-Pacific Climate and Decarbonization Solutions Leader

Most of the bigger markets in Asia-Pacific either already mandate climate reporting or are about to start implementing it. Furthermore, Australia, Japan, Malaysia, Singapore, Hong Kong and South Korea all plan to implement reporting standards that incorporate the specific requirements of the ISSB standards.

The increase in disclosure coverage and quality highlighted by this year's Barometer suggests that companies in these countries are beginning to ready themselves for adoption of ISSB standards, along with any supporting taxonomies. At the same time, central banks in the region are putting pressure on their financial sectors to make sure that both physical and transition risks are fully embedded into their business strategies.

In New Zealand, which is a leader in sustainable finance, banks are increasingly integrating ESG criteria into their credit policies and lending activities. Australian banks and financial institutions are also undertaking increasingly granular assessments of transition plans.

A notable outlier on the Asia-Pacific climate reporting landscape is Indonesia, which has a population of more than 275 million people and is one of the world's largest consumers and producers of coal.

> The region's low levels of transition planning are perhaps unsurprising, given the significant barriers to transition that exist in Asia-Pacific.

While it lacks mandatory climate reporting, the country is making other efforts to accelerate carbon neutrality, including a carbon tax[20] on economic activities that generate potentially harmful carbon emissions.

As the Barometer shows, companies in Asia-Pacific are less likely to produce transition plans than their peers in Europe. Only 33% of companies in the region have a transition plan in place. While disappointing, the region's low levels of transition planning are perhaps unsurprising, given the significant barriers to transition that exist in Asia-Pacific.

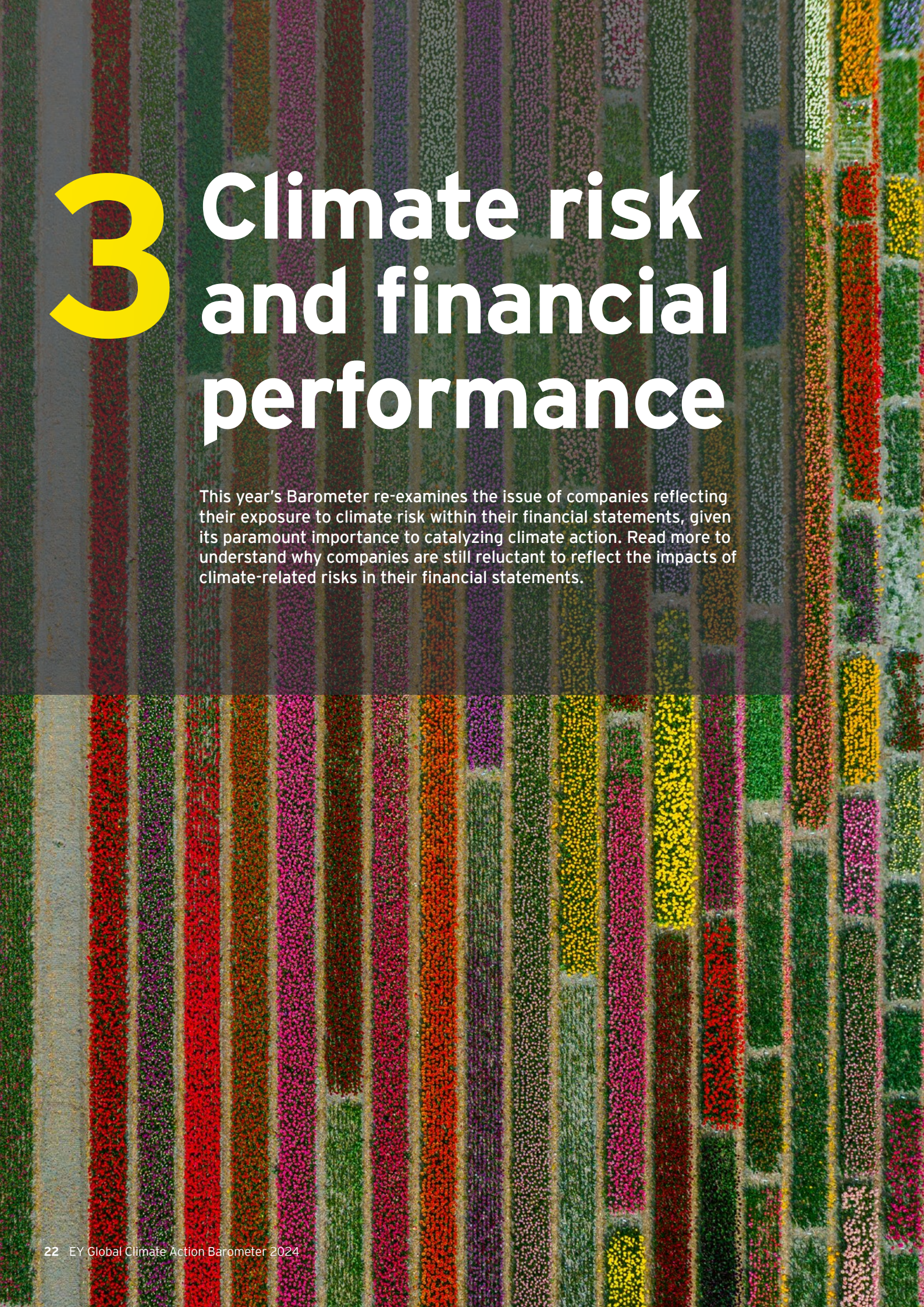
There are high levels of coal dependency in many countries, and renewable energy is often comparatively expensive. The region also has regulated energy markets, which inhibit differentiated pricing policies. Additionally, investment in infrastructure and policy change are needed to bring about "smart grids" – high-performance electricity grids that allow businesses to make choices about their energy use so they can operate more efficiently and manage their costs.

Singapore is a good example of a market with robust, reliable grid infrastructure in place. It is also exploring how it can deploy microgrids (independent local grids) to enable communities and businesses to tap renewable energy sources and become largely energy self-sufficient.

Ultimately, emissions reduction remains an ongoing challenge for companies in the region, especially in hard-to-abate sectors such as cement. Fortunately, financial institutions recognize that companies in these sectors are struggling to access the funding they need to transition. Over the next year, it is likely that more banks will make funding available to companies that are trying to achieve incremental emissions reductions.

[20]The tax is due to take effect from 2025, but there are concerns that the policy may not be well enforced.


Quality has risen to
54%
in 2024, but the change from last year's 50% is incremental, given the significant level of improvement required.



3 Climate risk and financial performance

This year's Barometer re-examines the issue of companies reflecting their exposure to climate risk within their financial statements, given its paramount importance to catalyzing climate action. Read more to understand why companies are still reluctant to reflect the impacts of climate-related risks in their financial statements.

Just 36% of surveyed companies referenced climate-related financial impacts in their financial statements.

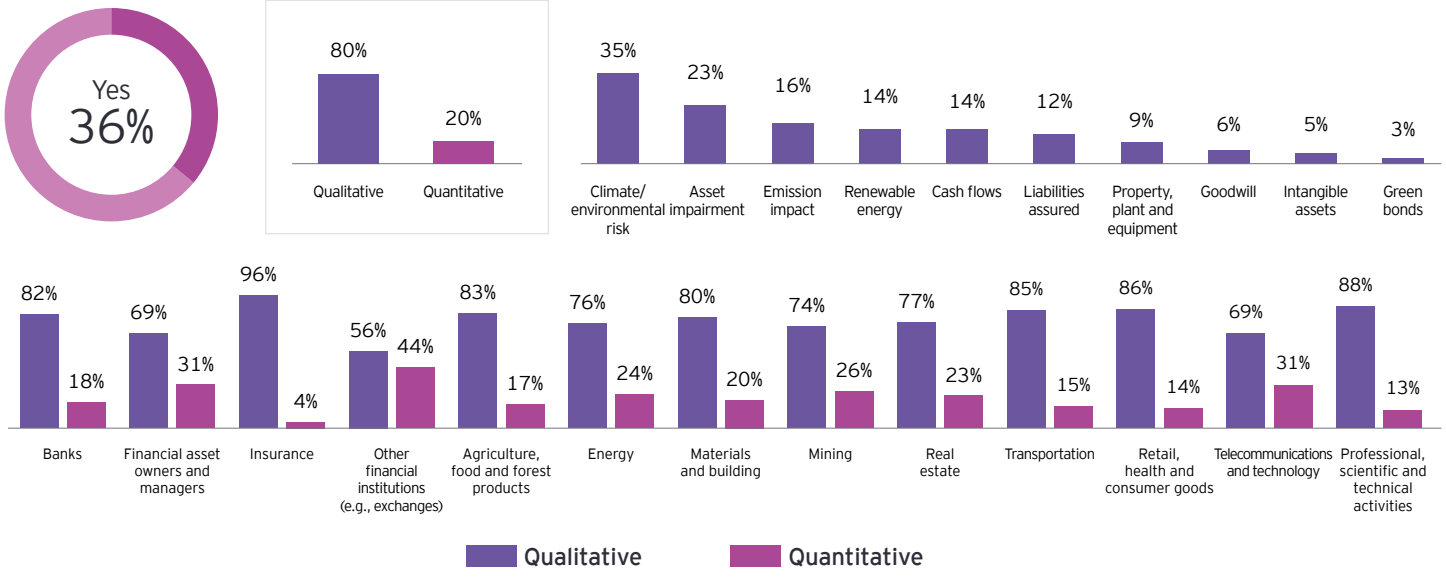
Unfortunately, year-on-year progress in the area of climate risk and financial performance has been very limited. This should set off warning bells, given the high potential for climate change to wreak serious economic and social harm. Analyses conducted for the Barometer, using data from the Network for Greening the Financial System (NGFS)[21] and insights from the World Economic Forum (WEF),[22] reveal that the average GDP for the 51 countries assessed is expected to decrease by 35% by 2100 if no further climate action is taken.

Despite the severity and urgency of the economic threat — and the fact they themselves are disclosing greater analyses of their physical and transition risk — companies are still reluctant to reflect the impacts of climate-related risks in their financial statements. In this year's Barometer, just 36% of surveyed companies had referenced climate-related financial impacts in their financial statements against quantitative or qualitative aspects. This is only a marginal increase on last year's figure of 33%, which itself was a minor uplift compared with 2022, when fewer than one-third (29%) of companies referenced climate-related matters in their financial statements.

Companies cannot afford to overlook the potential financial impact of climate risk on the business over the medium- to long-term. They could use their transition plans to explain how their business model is likely to be affected by the shift to a net-zero economy.

When companies do reference climate risk in their financial statements, the majority of references are qualitative (80%). Only a minority (20%) provide additional quantitative references. This kind of information helps companies to identify, assess and manage climate-related risks and opportunities more effectively. It allows for a better understanding of potential financial impacts, which can inform strategic planning and risk mitigation strategies. The quantitative references observed in the Barometer were usually in the form of asset impairment or in the provision for risk. Alongside asset impairment, the commonly referenced terms relating to financial impact include cash flows, liabilities assumed and property, plant and equipment.

Figure 11. Are climate-related matters referenced in the financial statements?



[21] Network for Greening the Financial System (NGFS) accessed 5 August, 2024, https://www.ngfs.net/en
[22] World Economic Forum, accessed 5 August, 2024, https://www.weforum.org/

Climate-related risks with high financial impact

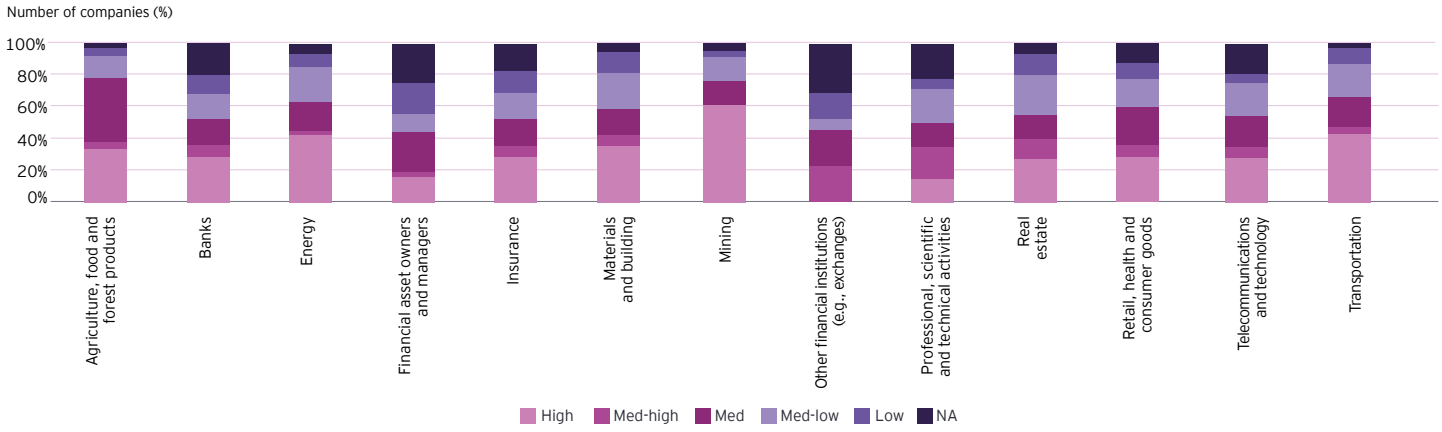
Overall, only one-third of companies (32%)[23] have disclosed at least one climate risk with a high financial impact. Among the top listed are climate and environmental risk,[24] asset impairment[25] and emission impact.[26] Unsurprisingly, given their exposure to transition, the mining (62%), energy (43%) and transportation (43%) sectors are most likely to consider climate risks to have a high financial impact.

Regionally, Asia-Pacific has the highest proportion of companies (48%) that report on climate risk having a high impact. Within EMEIA, just over one-third (36%) of companies consider climate risk to have a high financial impact. The Americas bring down the average score, however, with a mere 17% of companies reporting that climate risk could have a potentially high financial impact on their business. This is despite the US and Canadian economies – along with the Middle East – having the highest risk of negative impact on GDP due to climate change.

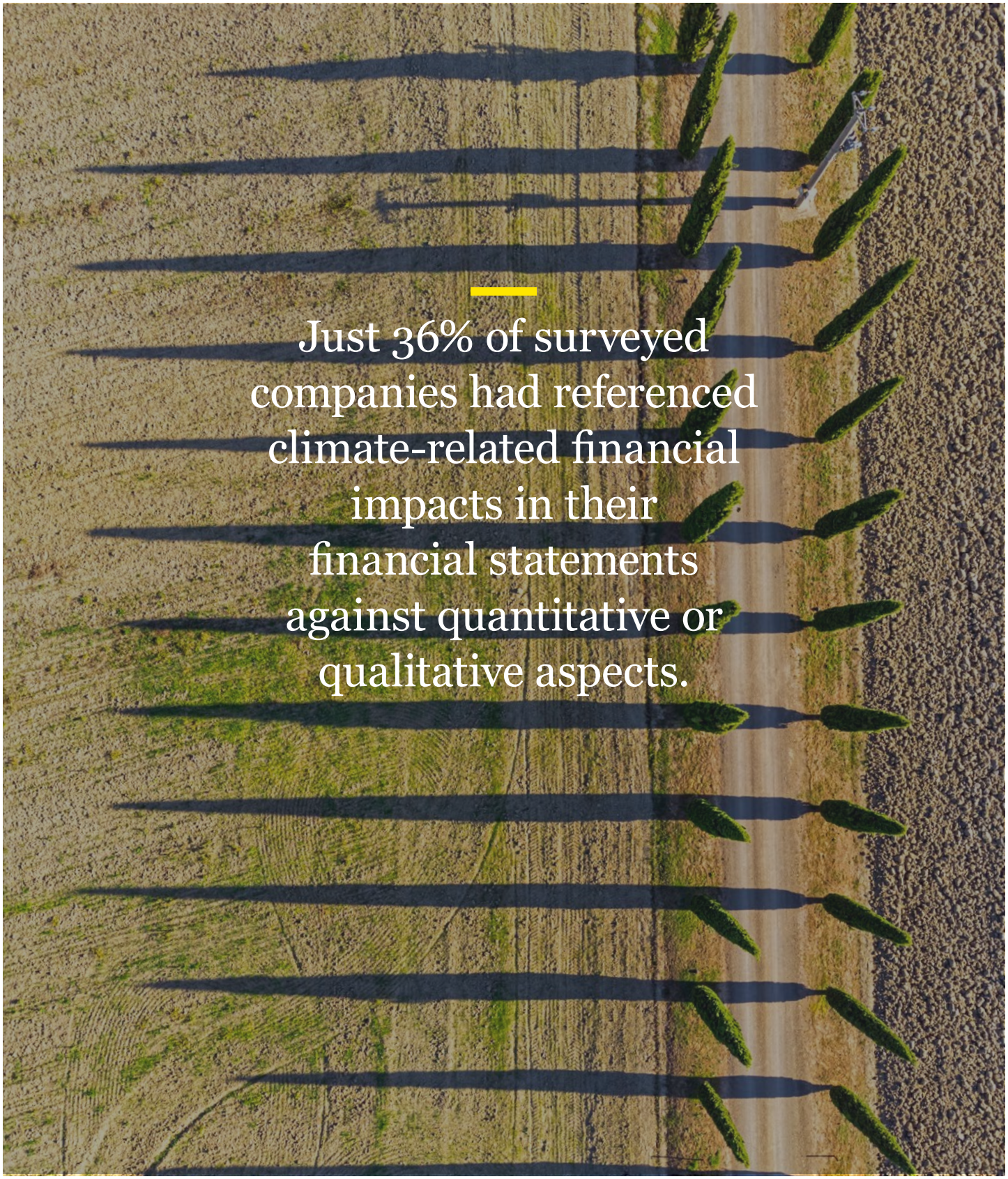
Some companies apparently underestimate the financial impact of climate change on their business models. While they do analyze their physical and transition risks, this analysis is not sufficient for them to assess the financial impact of climate on their business over the medium- and long-term. Alternatively, companies may have assessed the financial impact of climate change but have concerns about disclosing that potential impact in their financial statements for reasons of competitiveness.

For some companies, a reason for the lack of disclosure on high financial impact might be geography. Based on the analysis of NGFS and WEF data, the UK's GDP is expected to be least impacted by climate change of all the countries in the Barometer. This could explain why UK companies' acknowledgment of climate-related financial impact remains minimal, despite them producing a relatively high number of transition plans.

Figure 12. Companies reporting impact of climate risk (by sector)



[23] Of the 1,400 companies, 824 have disclosed their CDP information. This analysis is based on those 824 companies.
[24] Refer to footnote A
[25] Refer to footnote B
[26] Refer to footnote C



Just 36% of surveyed companies had referenced climate-related financial impacts in their financial statements against quantitative or qualitative aspects.

4 Adoption of the IFRS Sustainability Disclosure Standards

The ISSB's IFRS S1 and IFRS S2 standards are now in effect. Learn about the importance of this voluntary framework on the state of climate-related disclosures.

Overall, 85% of companies disclosed their progress against previously set targets.

As a result of the ISSB Standards coming into effect in 2024, companies have been able to adopt these as voluntary standards for annual reporting periods beginning on or after 1 January 2024.

Markets that have either already formally adopted or are officially planning to adopt ISSB Standards at a jurisdictional level include:

- Australia
- Brazil
- Bangladesh
- Botswana
- Canada
- Chile
- China Mainland
- Colombia
- Costa Rica
- Ghana
- Hong Kong
- Japan
- Kenya
- Korea
- Malaysia
- Mexico
- Nigeria
- Pakistan
- Philippines
- Singapore
- Sri Lanka
- Taiwan
- Turkey
- UK
- Zambia

The results of this year's Barometer highlight a marked rise in the percentage of companies surveyed that are ready to disclose against the recommendations of IFRS S2 Climate-related Disclosures. This is possibly because companies are reporting against the TCFD recommendations upon which IFRS S1 and IFRS S2 are built. The highest average scores for ISSB readiness were secured by Taiwan and the UK (both at 68%), reflecting the speed and decisiveness of those jurisdictions in relation to adopting the ISSB standards. ISSB-aligned UK Sustainability Reporting Standards (UK SRS) are expected to be available in the first quarter of 2025, while Taiwan is targeting adoption in 2026.

The most ISSB-ready sectors, with the highest amount of disclosures, were energy (57%), insurance (56%), transportation (56%), other financial institutions (55%) and telecommunications and technology (55%). Although it is tempting to draw a generalizing conclusion from this, the Barometer did not establish why some sectors perform better than others. ISSB readiness might be influenced by various factors such as market regulations or sector emission intensity.

IFRS S2 has four main pillars — governance, strategy, risk management, and metrics and targets — that align with the pillars of the TCFD. The greatest year-on-year increases in disclosures were seen with the strategy pillar, as companies respond to pressure from regulators and other stakeholders to show their progress toward their climate goals and their commitment to monitoring and managing their risks.

Overall, 85% of companies disclosed their progress against previously set targets (S5), up from 65% last year. Furthermore, 70% of companies disclosed around scenarios associated with transition or physical risks (S6).

Just 5% of companies disclosed on quantitative or qualitative information impacting financial planning, which could reflect a reluctance to give away commercially sensitive information or suggest they are not allocating money to initiatives (S1).

In line with the regulatory push for companies to set emission reduction targets, there was a large leap in the percentage of companies disclosing Scope 3 emission categories (M5). This year, 74% of surveyed companies disclosed Scope 3 emissions, up from 54% last year.

Four out of 10 companies (42%) have had their targets validated by a third party, such as the Science-Based Target initiative (SBTi) (M7) — up from 33% last year, but still reflecting a significant gap overall in terms of third-party validation of targets. Validation is critical to safeguarding the integrity of targets. Only 17% of companies disclosed their capex requirements (M2), and 4% disclosed their opex requirements (M3).

Under the governance pillar, around 76% of companies disclosed on skills and competencies for overseeing climate strategies and on how a committee has been set up to oversee the setting of targets (G1). Nearly half (47%) of companies have disclosed information on the integration of dedicated control and procedures for managing climate-related activities (G2).

In terms of the ISSB requirements that companies are reporting on in addition to the TCFD, they have mostly disclosed around the following:

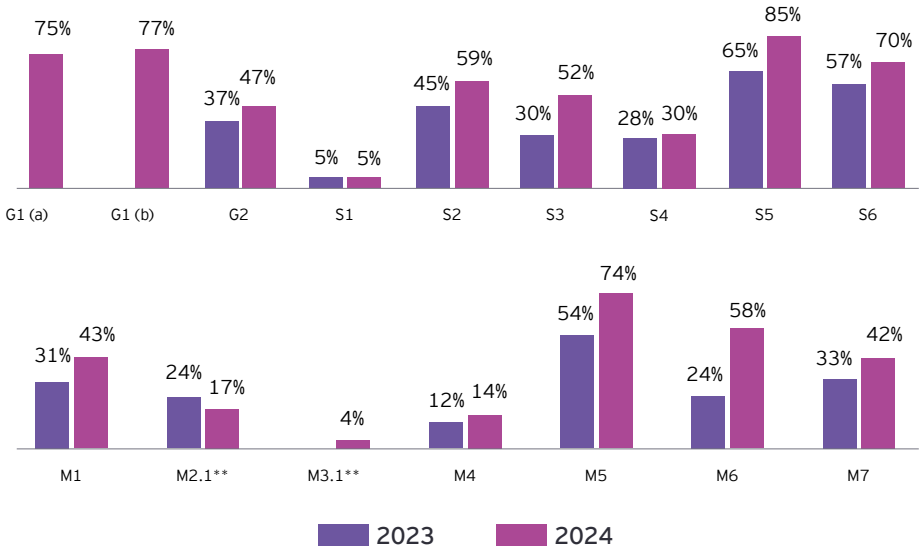
- Information about the progress of plans or targets disclosed in prior reporting periods.
- Skills and competencies at board level to oversee strategies and the setting of targets related to significant climate impact.
- Scope 3 emissions (material categories).
- Use of scenarios to assess climate-related risks, rationale for chosen scenario and inputs used in the analysis – scope of operations, time horizon, assumptions, etc.

TCFD versus ISSB

Companies' current performance against the TCFD's recommendations (quality score) and their maturity against IFRS S2 (number of responses to the additional requirements and questions) was analyzed to assess their readiness to adopt the ISSB framework.

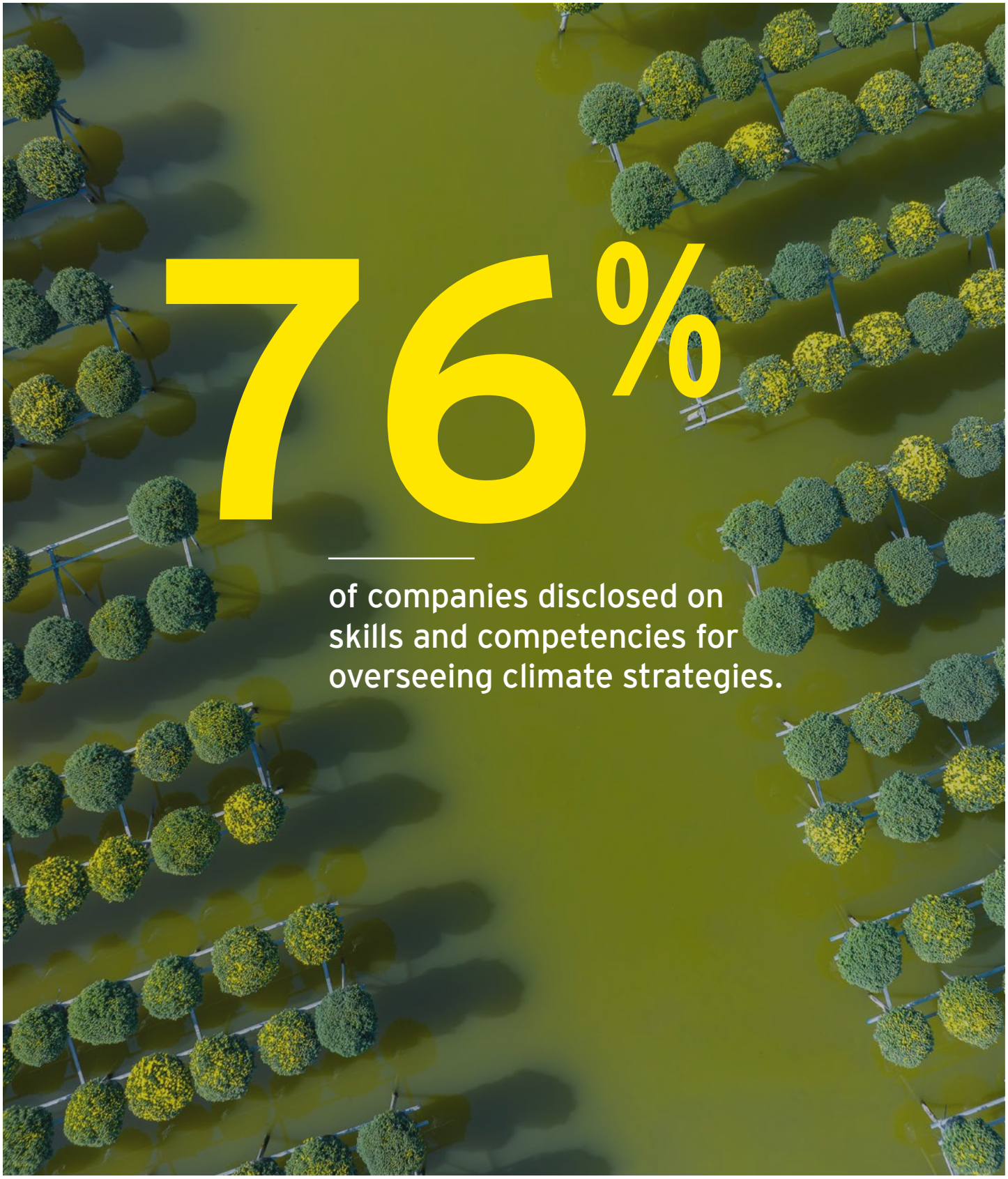
At a sector level, energy, transportation, insurance, and telecommunications and technology lead the comparison of TCFD versus ISSB performance. These sectors scored well under the TCFD quality score, with the majority of companies also disclosing or responding against the ISSB's additional recommendations. Financial sectors, such as financial asset owners and managers, lag behind and need to improve their disclosure against both TCFD recommendations and the ISSB framework.

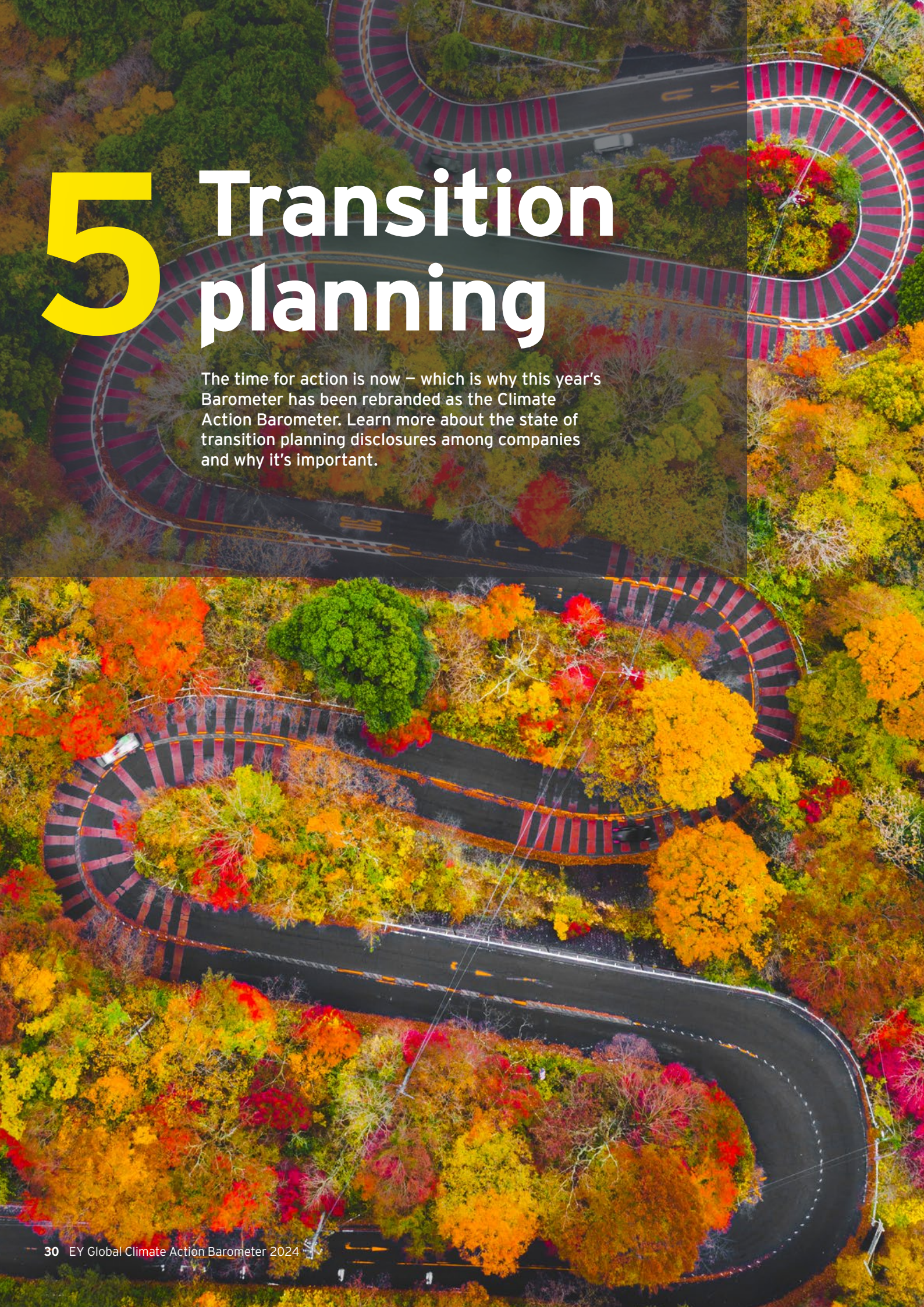
Figure 13. % of companies disclosing against IFRS S2 recommendations*



* Here, G1, G2, S1, S2 are not same questions as TCFD's G1, G2, S1, S2 rather these are additional ISSB questions which are aligned to TCFD's questions (wherever applicable) and are further added as separate questions in the assessment template/methodology.

** The question about targets on capex, opex, revenue from low-no GHG products has been broken into 2 parts – capex (M2) and opex (M3). Corresponding without taxonomy data (M2.1 and M3.1) is provided in the chart. Last year's M2 was a combination of capex and opex responses.


76%
of companies disclosed on skills and competencies for overseeing climate strategies.



5 Transition planning

The time for action is now – which is why this year's Barometer has been rebranded as the Climate Action Barometer. Learn more about the state of transition planning disclosures among companies and why it's important.

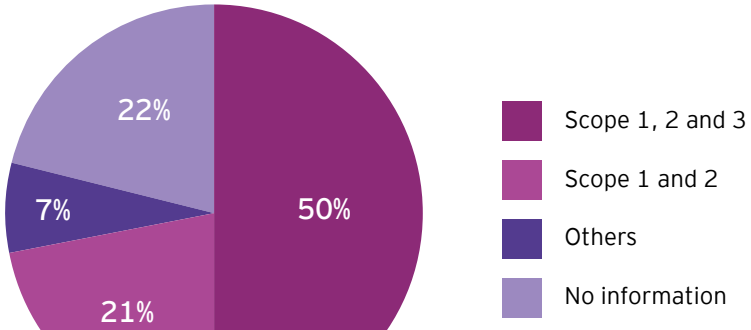
Just 41% of companies assessed this year disclosed the presence of a transition plan.

The level of transition planning being undertaken by companies highlights their struggles to identify decarbonization levers and develop the action plans needed to achieve their climate goals. Just 41% of companies assessed this year disclosed the presence of a transition plan, while 21% do not have a transition plan currently but have disclosed ambitions to put one in place.

The remaining two in five companies (38%) either failed to provide details of their transition plan or indicated that they do not intend to establish a transition plan in the near future. Perhaps expectedly, those companies that do have transition plans generally have a higher quality of climate disclosures. This further suggests that these companies will be best prepared for the environmental, social and economic disruptions caused by climate change.

Companies' lack of action on transition is incongruent with the scale of their ambition on the climate agenda. Analysis of disclosures in relation to transition planning shows that 83% of the companies assessed have set short-term targets, aiming to achieve those targets by 2030. These targets are not always linked to specific emissions scopes, however – for example, a company's short-term target might be to reduce its carbon footprint by 10% within the next three years.

Figure 14. GHG emissions targets



Nevertheless, the majority of companies assessed for the Barometer are specific about the emission scopes included in their short- and long-term targets. For example, they might aim to cut their Scope 1 and 2 emissions by a certain percentage within a certain time frame. Overall, 78% of the companies assessed disclosed the scope of emissions considered in their targets. Half (50%) considered all three scopes in their targets, while 21% considered Scopes 1 and 2 only.

Yet while companies are being proactive about setting short-term targets, only 51% have set longer-term targets. This is despite companies committing to targets of net-zero by 2050, which requires them to set GHG emission reduction targets in the short and long term. The bulk of the reduction effort is needed within the short-term time frame, but long-term targets are also essential for achieving the net-zero ambition.

It is likely that companies are focusing on short-term targets rather than longer-term targets, as they see them as more achievable. Nevertheless, their 2030 targets should still be aligned with an overall 2050 net-zero ambition. They should also be aligned with their own country's NCD target for 2035.

Overall, only 24% of companies assessed for the Barometer have their short-term and long-term targets validated by the SBTi, although this figure climbs to 41% of companies with an established transition plan. These numbers suggest that the other 76% have set targets that may not be ambitions enough and don't support the 2015 Paris Agreement goals.

Regionally, EMEIA leads on transition planning, with 21% of companies in the region having disclosed a transition plan.[27] This is no surprise, given the EU's CSRD ESRS E1 standard and the UK's TPT are driving more companies to disclose more detail on their transition plans. The Americas has the highest work-in-progress score for transition plans (8%), while 10% of companies in the region are already disclosing their transition plans. These findings likely reflect US companies preparing to comply with the SEC's climate disclosure rule. While transition plans are still voluntary in most markets, they are mandatory in some, including Japan and New Zealand.

As indicated in previous chapters, it's clear that even the companies that produce detailed and comprehensive transition plans fail to deliver at the speed and scale of improvement needed.

From a sector perspective, telecommunications and technology tops the ranking when it comes to disclosing the most about their transition plan, with around 51% of companies in the sector disclosing a plan.[28] This could be due to companies in this sector looking to position themselves as providers of energy saving and carbon reduction services to other businesses looking to decarbonize.

Banks disclose less about their transition plans than many other sectors. This is likely due to the complexity of their business models, which can be highly impacted by policy changes, and challenges with accessing sufficiently granular data about their assets.

It's clear that even the companies that produce detailed and comprehensive transition plans fail to deliver at the speed and scale of improvement needed.

Nevertheless, their exposure to climate risk and the critical role they play in funding transition demands that banks and other companies in the financial sector urgently develop and implement transition plans. They could also seek validation by the SBTi to check their plans are aligned with net-zero climate goals. It is concerning that more energy companies do not disclose more about their transition plans, given energy is an enabler of transition for other sectors.

Figure 15. Companies with transition plan (by region)

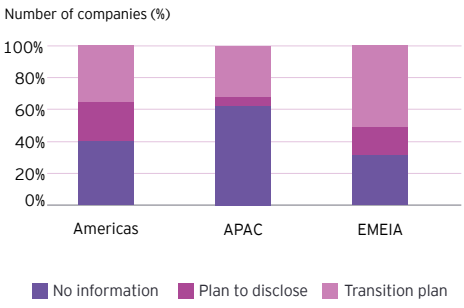
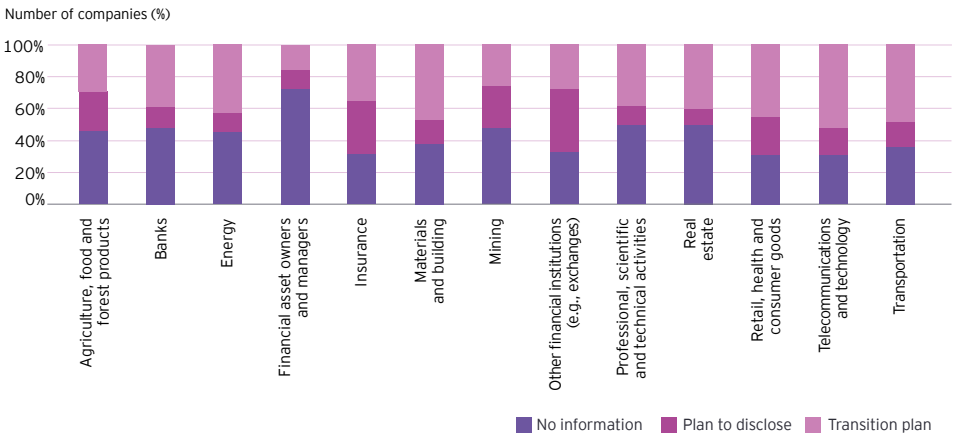


Figure 16. Companies with transition plan (by sector)



[27] Of the 1,400 companies, 824 have disclosed their CDP information. This analysis is based on those 824 companies.
[28] Of the 1,400 companies, 824 have disclosed their CDP information. This analysis is based on those 824 companies.

Capital and operational expenses
Regardless of whether a company has a transition plan in place, just 17% of companies have disclosed on their capex investment in support of transition planning, while just 4% have disclosed on opex. These low levels of disclosure reflect the newness of the exercise, as well as the difficulties involved with assessing the financial requirements for achieving high levels of emissions reduction.

It is complex to produce disclosures on capex and opex due to the need for high-level estimates and supporting assumptions, including assumptions around the innovation costs associated with decarbonization.

Failing to report on resource allocation will not help to promote transition: A lack of resource information will prevent companies from meeting their regulatory obligations and accessing the financial support they need from banks and investors to fund climate-related initiatives.

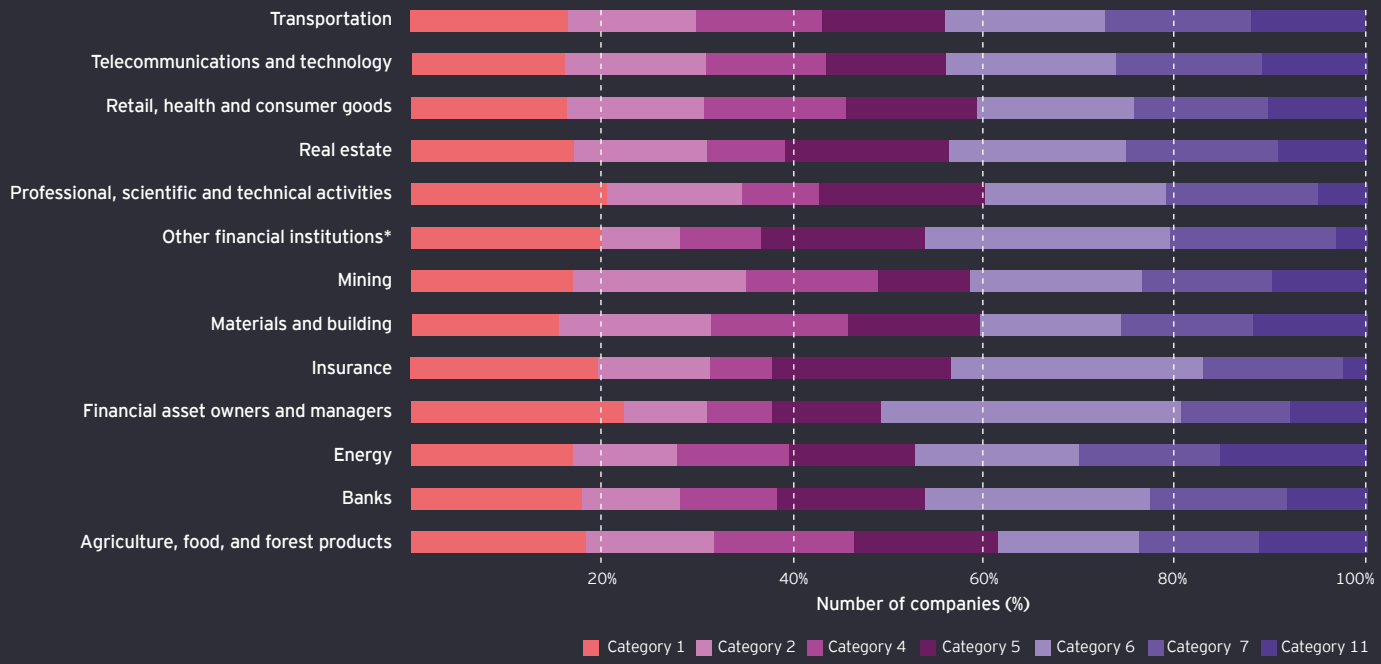
Scope 3 emissions disclosure

Scope 3 emissions usually account for more than 70% of a company's carbon footprint.[29] Therefore, disclosures around Scope 3 emissions are vital for enabling companies to assess emission hotspots within their value chains and develop reduction strategies to address those hotspots. Despite this, only 54% of companies disclosed at least one of the categories of Scope 3 (and there was no available information to clarify the materiality of these disclosures). Among the remaining 46%, there may be companies that report their Scope 3 emissions but do not break them down into categories.

Business travel was the most commonly disclosed category by companies, probably because it is the most straightforward category to calculate. It is not the most material emissions source in companies' value chains, however, so they should expand their reporting remit to cover more categories in future.

Franchise was the least disclosed category, due to only a small number of companies having franchise operations. The vast majority of companies (94%) did not disclose against all 15 Scope 3 categories.

Figure 17. Top Scope 3 categories (by sector)



** (E.g., exchanges, other financial services providers, rating agencies and credit bureaus)*

[29] "Scope 3 Emissions," Global Compact Network UK website, www.unglobalcompact.org.uk/scope-3-emissions, accessed 5 August 2024.

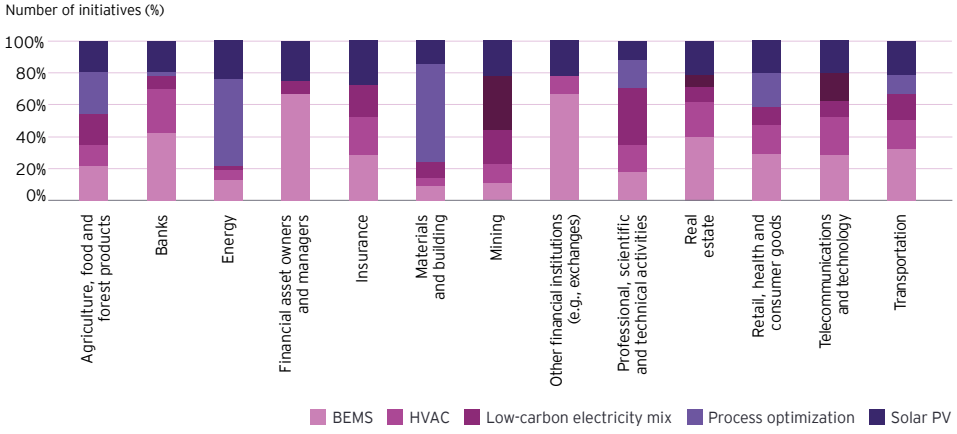
Decarbonization strategies

In terms of their decarbonization strategies, companies are currently prioritizing a reduction in Scope 2 emissions. Out of 720 decarbonization initiatives disclosed by companies in the Barometer, 55% were targeted at Scope 2. Scope 2 emissions are within a company's direct control, and reduction is manageable through strategies such as using less electricity and purchasing renewable energy through power purchase agreements (PPAs). Furthermore, reductions in Scope 2 emissions tend to be low cost and might even generate a net return.

Companies are investing less in initiatives targeted at Scope 1 and Scope 3 emissions, such as reviewing procurement-related practices. This is despite a reduction in these emissions being essential for them to genuinely decarbonize their business models. Less than half (43%) of companies included Scope 1 decarbonization initiatives and 18% of companies included Scope 3 decarbonization initiatives as part of their transition plan.

The nature of decarbonization initiatives being adopted by companies varies considerably by sector. Building energy management systems (BEMS) are the preferred option for other financial institutions and financial asset owners and managers. Process optimization is preferred by the energy and materials and building sectors.

Figure 18. Decarbonization initiative (by sector)

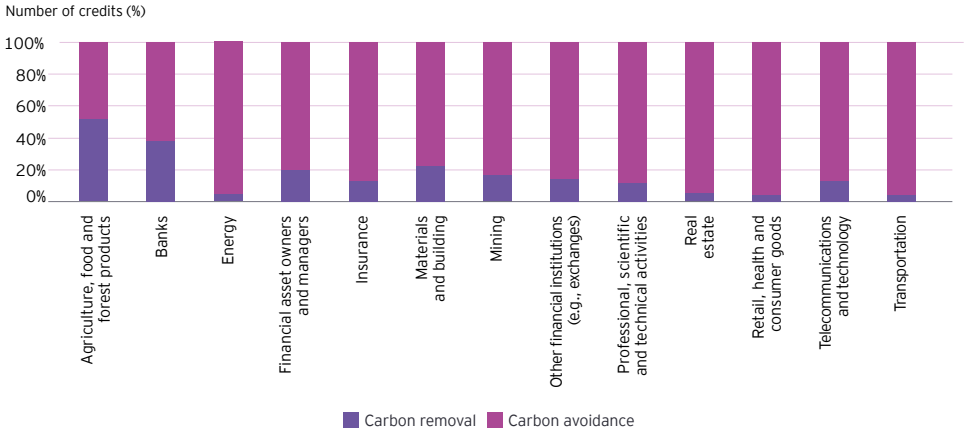


Carbon credits

Carbon credits are integral to the decarbonization strategies of many companies. More than half (51%) of the companies assessed disclosed information on using carbon credits to neutralize their emissions. Over one-third (35%) reported using carbon credits specifically to neutralize residual emissions or hard-to-abate emissions – those that are difficult to avoid or fully eliminate due to technological, financial or other limitations.

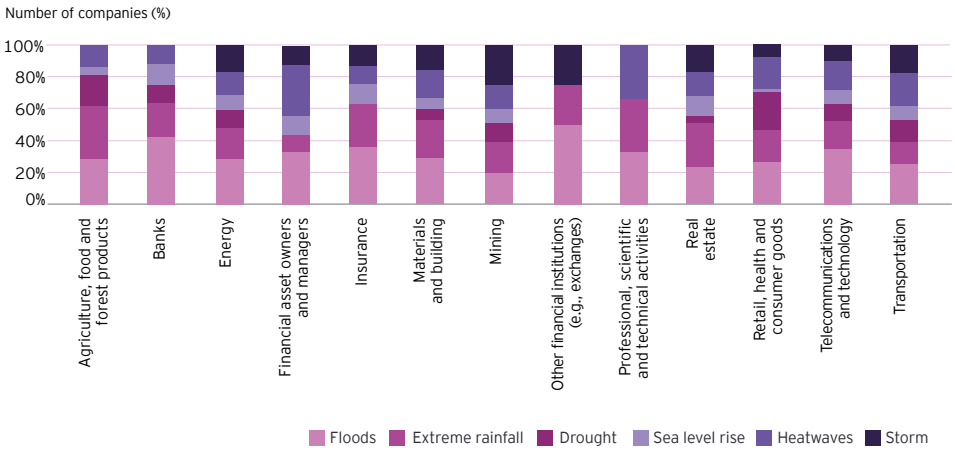
Additional CDP data was analyzed to explore some additional themes in relation to carbon credits. The analysis found that the companies[30] have retired 52 million carbon credits. Between them, the energy and transportation sectors have retired 67% of the carbon credits (based on volume) retired by all the in-scope companies. The preferred type of carbon avoidance credit for all sectors is carbon avoidance credits (credits that prevent or reduce GHG emissions that would have otherwise occurred).

Figure 19. Types of carbon credit retired by volume (by sector)



[30] Of the 1,400 companies, 824 have disclosed their CDP information. This analysis is based on those 824 companies.

Figure 20. Physical risks considered in climate adaptation plan (by sector)



Transition plan versus decarbonization strategy: What's the difference?

A transition plan is a time-bound action plan that clearly outlines how an organization will pivot its existing assets, operations and entire business model toward a trajectory that aligns with the latest and most ambitious climate science recommendations, i.e., halving GHG emissions by 2030 and reaching net zero by 2050 at the latest, thereby limiting global warming to 1.5°C.

A credible transition plan will encompass how the entity intends to decarbonize its own operations and value chain (its decarbonization strategy), as well as how the entity will respond to climate risk and opportunities, and contribute to the broader economy-wide transition.

By contrast, a decarbonization strategy is a narrower approach. With this approach, an organization sets out its plan to reduce its carbon footprint or impact on climate by primarily focusing on initiatives such as moving to greener or more energy-efficient products or services.

Companies should do as much as they can to reduce their own emissions before using carbon credits to neutralize the remainder of their emissions, as well as the emissions of their value chain.

Adaptation plans

Climate change presents considerable physical risks to companies in future, due to the likely increase in extreme weather events. Physical risks can take a range of forms, from operational and logistical disruption and infrastructure damage through to negative impacts on human health and productivity.

In recognition of these risks, this year's Barometer assesses – for the first time – whether companies have developed an adaptation plan. In contrast to a transition plan – which focuses on reducing emissions across the value chain – an adaptation plan explains how companies intend to respond to physical risks.

Overall, just 19% of companies that feature in the Barometer have reported their climate adaptation plan for at least one type of physical risk. This is despite 81% having undertaken physical risk analysis. Floods and extreme rainfall are the physical risks mostly commonly integrated into climate adaption plans, followed by heatwaves and storms.

Barriers to transition

Businesses with transition plans will be better prepared to navigate the disruption associated with the shift to a low-carbon economy. They will also be better equipped to transform in response to changing market dynamics.

Going forward, robust transition planning will underpin companies' competitiveness by showing that they are managing and mitigating their climate-related risk and seizing new opportunities. Companies will be expected to publish transition plans that set appropriate targets and allocate resources across their organizational footprint, with the aim of significantly reducing emissions across their entire value chain.

At present, however, companies face several barriers that may be preventing them from developing robust transition plans. According to the research undertaken for the Barometer, these challenges include:

1. Commercial pressures

Arguably, the greatest challenge is balancing the business imperative to maintain profitability and shareholder returns with achieving carbon ambitions. Fears that transition plans may erode a company's competitiveness could result in reduced funding for some transition initiatives. Companies may also be concerned about incurring losses on existing assets that fall short of 1.5°C targets.

Half of the respondents (50%) to the 2023 EY Global DNA of the CFO Survey revealed that they are meeting short-term earnings targets by cutting funding in areas that are also considered long-term priorities, including environmental initiatives.[31]

This is despite the EY 2023 Sustainable Value Study finding that the companies taking the most action to address climate change are 1.8 times more likely to report higher-than-expected financial value from their initiatives, compared with those taking the least action.[32]

2. Addressing Scope 1 and Scope 3 emissions

The EY 2023 Sustainable Value Study highlighted that progress on climate and other sustainability initiatives is slowing as early projects focused on "low-hanging fruit" are coming to an end. Many companies have successfully reduced their Scope 2 emissions by switching to renewable energy or putting PPAs in place. Now, they are having to turn their attention to Scope 1 and Scope 3 emissions — which can be harder to address because they are either central to the company's operations or outside of its direct control.

3. Unavailability or expense of low-carbon technology

The technology needed for companies to achieve their climate ambitions may be unavailable or extremely expensive: for example, the adoption of energy storage systems. It's been relatively slow due to several impediments, including the high up-front costs associated with purchasing and installing these systems, which can deter investment despite potential long-term savings. Shifting to low-carbon technologies could also disrupt production levels, challenging companies' ability to meet customer demand.

4. The regulatory and policy environment

In many markets, there is a regulatory push that is driving companies to produce transition plans. In countries where the regulatory push is less pronounced, or where policymakers backtrack on proposals to require transition planning, companies will feel under less pressure to produce transition plans. Another challenge is that high renewable energy costs can be prohibitive to transition in certain markets as policymakers respond to voter pressure to prioritize cost-efficiency and energy security above climate change. Political backlash against the climate agenda is an issue in the US.

5. Governance and internal capabilities

Inadequate governance processes can impede the effective integration and management of complex transition strategies. It is essential that companies have the right governance processes to support transition and that the board is educated on climate matters. Both the board and the leadership need access to robust information, including in-depth scenario analysis and net-zero best practices. Without this, it can be hard to shape transition plans. Labor shortages are also an issue in many markets, depriving companies of the critical skills they need to transition.

6. Stakeholder engagement

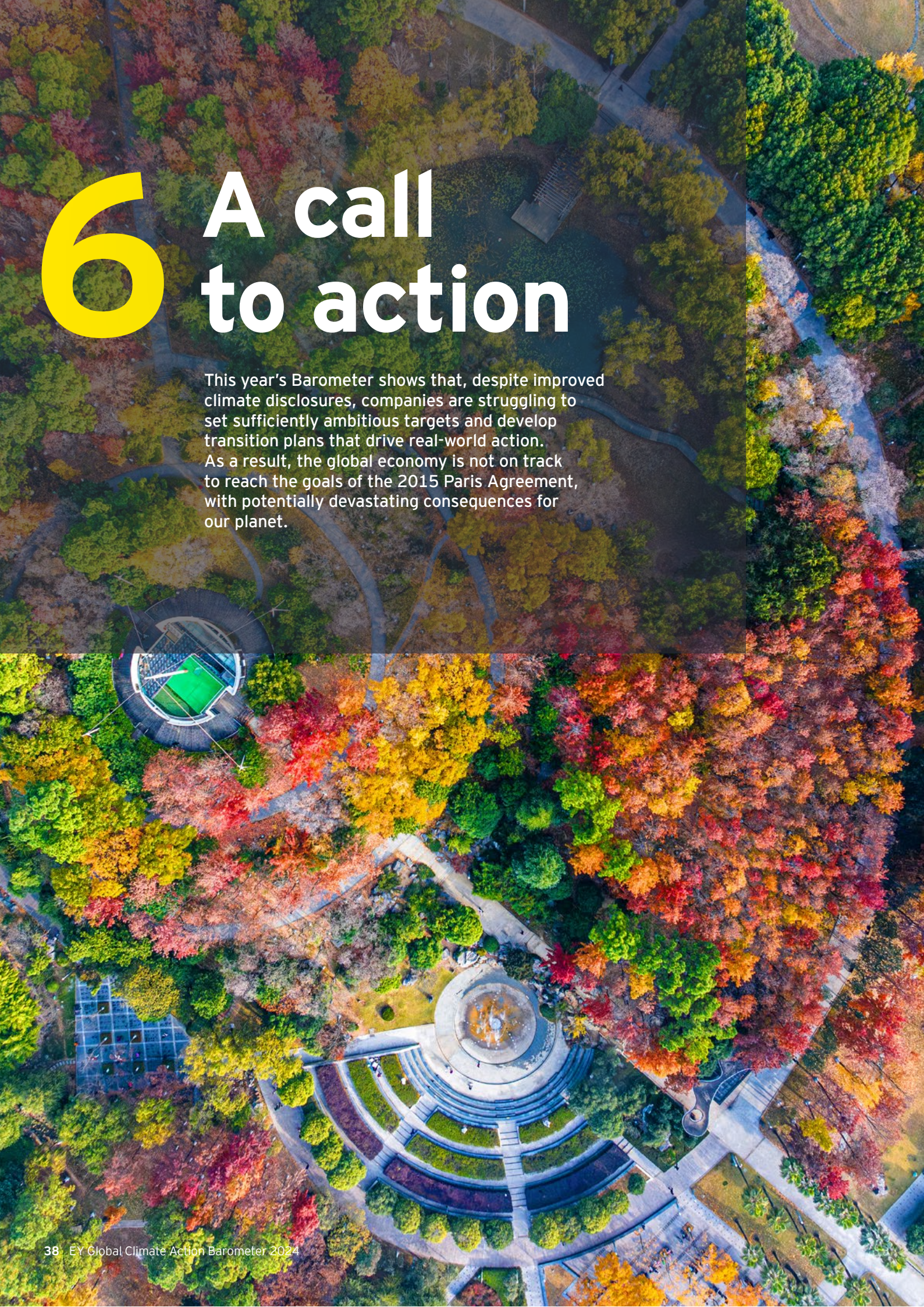
Aligning and annually updating stakeholders on the transition plan demands significant effort and focus. In particular, the process of collaborating with value chain partners can be expensive and time consuming. Nevertheless, it is critical to successful emissions reduction.

[31] EY Global DNA of the CFO Survey, EY, 2023.
[32] EY Sustainable Value Study, EY, 2023.


Businesses with transition plans will be better prepared to navigate the disruption associated with the shift to a low-carbon economy.

6 A call to action

This year's Barometer shows that, despite improved climate disclosures, companies are struggling to set sufficiently ambitious targets and develop transition plans that drive real-world action. As a result, the global economy is not on track to reach the goals of the 2015 Paris Agreement, with potentially devastating consequences for our planet.



Ambitious and meaningful action is urgently needed to accelerate the transition to a net-zero economy. Companies should take these six core actions to accelerate change:

1. Move transition to the top of the business agenda by developing a robust, actionable plan.

This transition plan should be based on science-based targets and outline clear short- and long-term targets for Scope 1, 2 and 3 emissions. It should be informed by robust scenario analysis and feature a clear decarbonization strategy for the supply chain, including development programs that support suppliers in reducing their emissions. The plan should allocate capex and opex investment to climate initiatives and not over-rely on risky, unproven technologies. As well as considering emissions, the plan should consider the physical risks associated with transition, along with potential policy, legal, technology, market and reputational risks.

At a broader level, the plan should support the company's license to operate, considering how it can influence a just and equitable transition for all its stakeholders. Companies need to tie sustainability performance to executive compensation to incentivize executives to prioritize and achieve their climate-related goals, integrating them into strategic decision-making and daily operations. Companies that are committed to achieving their transition plan will need a supportive policy environment, so they should lobby policymakers to develop ambitious climate policy.

2. Reflect climate risk in the financial statements and explore financial opportunities.

Climate change is almost certainly a material risk for many businesses, particularly in sectors such as energy and mining. Yet the materiality of this risk is still not being properly reflected in companies' financial statements. They should adopt quantitative analysis to measure the risks and opportunities associated with climate change, ensuring a direct connection to financial reporting. Companies should explore not only the risks but also the potential opportunities. These may include new business models, a shift to new ways of working, or access to grants and incentives. For example, green finance can provide companies with the funding to invest in their long-term climate initiatives while enabling them to maintain short-term profitability and cash flows.

3. Use data to drive action.

By capturing the right data in the right way, companies can use their sustainability information to inform real-time decision-making. This will enable them to better anticipate and respond to market risks and opportunities, engaging widely across the business to ensure that different functions are capturing appropriate data and have processes to support the integrity of that data.

4. Provide the sustainability team with sufficient resources.

Companies should ensure that their sustainability teams are well resourced, with access to the necessary funding, information and personnel to drive meaningful change. Equally crucial is the strategic alignment, which can be achieved by positioning the sustainability function under the Chief Financial Officer (CFO) or making sure that sustainability is embedded in each role within different business units. This structure fosters a unified approach to sustainability, ensuring that environmental and social goals are integrated into the core business strategy and operations. It is also important that the sustainability teams have the capacity to manage compliance while also having the headspace to lead on overall sustainability strategy and undertake thoughtful work in vital areas such as climate risk analysis.

5. Equip board members with the skills to be able to understand and consider climate risk as part of a top-down approach.

This can be achieved through training and education, and by recruiting board members with specialist knowledge. Expert advice — acquired from both inside and outside of the organization — can provide invaluable insights that can help the board to provide effective governance around transition strategy.

6. Explore cross-sector collaboration.

One of the core opportunities for creating sustainable value is cross-sector collaboration. By looking outside of their immediate ecosystems of suppliers and partners, businesses are able to create value in often unique ways, benefitting multiple stakeholders, from investors to the final consumer.

Moreover, as governments and public sector are essential in driving progress toward net-zero targets, businesses could proactively align with regulatory frameworks, engage in public-private partnerships, promote transparency in monitoring and advocate for sustainable policies. By taking these steps, businesses can not only improve their engagement with governments on sustainability but also contribute significantly to the global effort to combat climate change.

About this research

The sixth edition of the EY Global Climate Action Barometer includes analysis of approximately 1,400 companies across 51 countries from 13 sectors,[33] both financial and nonfinancial, including those that are at high risk of climate-related impact. It draws on public disclosures produced during the 2023 or 2024 calendar year. These disclosures were typically made in annual reports, sustainability reports, TCFD reports or CDP reports.

The Barometer provides an annual overview of the alignment of organizations' climate-related risk disclosures, with recommendations across sectors likely to be highly impacted worldwide. This assessment provides not only companies, but also external stakeholders of all types (such as national regulators, financial institutions and investors), with an understanding of the current state of global climate risk reporting. The first edition of the Barometer (then named the EY Global Climate Risk Barometer) was issued in December 2018.

The 2024 Barometer analyzes the extent to which companies' disclosures are in line with the 11 pillars of the TCFD, and their preparedness for, and level of adoption of, IFRS S2. It also measures the extent to which climate-related risk and opportunities are being reflected in companies' financial statements.

Disclosure coverage and quality scoring
For the purpose of TCFD alignment, companies' climate disclosures were scored on two different metrics (the coverage and quality of disclosures) while, for IFRS S2 disclosure, companies were just assessed on the coverage.

Coverage
Companies were assigned a percentage score on the basis of the number of TCFD recommendations they have addressed. A score of 100% indicated that the company had disclosed some level of information compliant with each of the recommendations, regardless of the quality of information provided.

For IFRS S2 disclosure, companies' maturity in relation to coverage was assessed based on their responses to the additional requirements of the standard.

Quality
Companies were given a rating based on the quality of the disclosure, expressed as a percentage of the maximum score, should the company implement all 11 recommendations. A score of 100% indicates that the company had adopted all the recommendations and the quality of the disclosure met all the requirements of the TCFD (i.e., gaining a maximum score of 5 for each of the 11 recommendations).

The quality of the disclosures was scored using the following scoring system:

0 – Not publicly disclosed

1 – Limited discussion of the aspect (or only partially discussed)

2 – General discussion or disclosure of the aspect

3 – Detailed discussion or disclosure of the aspect

4 – Well-developed disclosure of the aspect

5 – Market-leading disclosure of the aspect; addressed all features of the aspect in disclosure

Table 2. Overall results by market

Region	No. of companies		% representation	
	2023	2024	2023	2024
US	297	271	19%	19%
Western/Northern Europe	195	188	13%	14%
Oceania	135	115	9%	8%
Southeast Asia	133	109	8%	8%
Southern Europe	105	101	7%	7%
Greater China	108	98	7%	7%
UK	85	76	6%	5%
Canada	77	72	5%	5%
India	85	64	6%	5%
Central/Eastern Europe	65	62	4%	4%
Middle East	52	60	3%	4%
Central/South America	65	58	4%	4%
Japan	43	38	3%	3%
Africa	41	37	3%	3%
Ireland	28	22	2%	2%
South Korea	22	21	1%	2%

[33] 11 TNFD sectors, as well as two additional sectors that were identified as high risk and were therefore included in the study. These two sectors are retail, health and consumer goods, and telecommunications and technology.

Financial impact (risk maturity) scoring

The following methodology was used to measure the extent to which companies are reflecting their exposure to climate risk within their financial statements:

Score (low to high)	Maturity level	Description
1	No scenario analysis or basic qualitative disclosure	Qualitative discussion that does not explain how the impacts translate into quantitative financials
2	Qualitative with specific financial discussion	Qualitative discussion that explains the expected financial impacts of the risks identified
3	Qualitative with some form of severity disclosure (e.g., high/medium/low)	Financial impact presented as high, medium or low without quantification of financial values
4	Quantitative with some form of severity disclosure (e.g., high/medium/low)	Financial impact presented as high, medium or low with quantification of financial values
5	Quantitative financial impact for each risk identified	Financial impact quantified for each risk type

Transition plans

This year's Barometer has a particular focus on companies' efforts to design and implement effective transition plans. To gather insights, additional questions on transition planning were therefore considered as part of the analysis. EY teams specifically evaluated CDP disclosures that mentioned transition plans to identify which actions were being undertaken by companies.

These questions covered the following topics:

- Short- and long-term targets
- Whether targets are validated by the SBTi
- Scope 1, 2 and 3 emissions reductions
- Engagement with value chain
- Commitment of capex and opex to transition initiatives
- Use of market instruments that help to facilitate grid decarbonization
- Transition constraints

Note: Much of the detail relating to transition plans in this report has been sourced from companies' CDP disclosures. Overall, 59% of the companies profiled in the Barometer report to CDP. Transition plan reporting in companies' own disclosures has also been considered. Future reports are also likely to draw on other data sets, including disclosures made under the ISSB framework and the EU's CSRD.

Footnote A

Valuation of assets, provisions, and loss against climate and environmental risk.

Footnote B

The regular impairment testing of the assets and goodwill of the business segments considers the measurement date to be the end of the first half of the year, as in previous years. On this reporting date, the values in use of the business segments are calculated in order to determine their respective recoverable amounts, based on the current operational and strategic set of planned values.

The calculations of the recoverable amounts are based on certain assumptions. These forecasts serve as basis for its revenue and corresponding capacity planning, from which the planned Earnings Before Interest, Taxes (EBIT) and cash flows for segments are derived. The outcome of this process is based on expectations of future market shares and growth in the individual markets, profitability of products and macroeconomic developments such as trends in interest rates and commodity prices against a backdrop of decisions related to climate policy and geopolitics.

Footnote C

Companies disclose figures against additions to property, plant and equipment (renewable technology, etc.), with a primary purpose of reducing carbon emissions. These allocations and investments help in reducing the overall emissions of the companies.

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