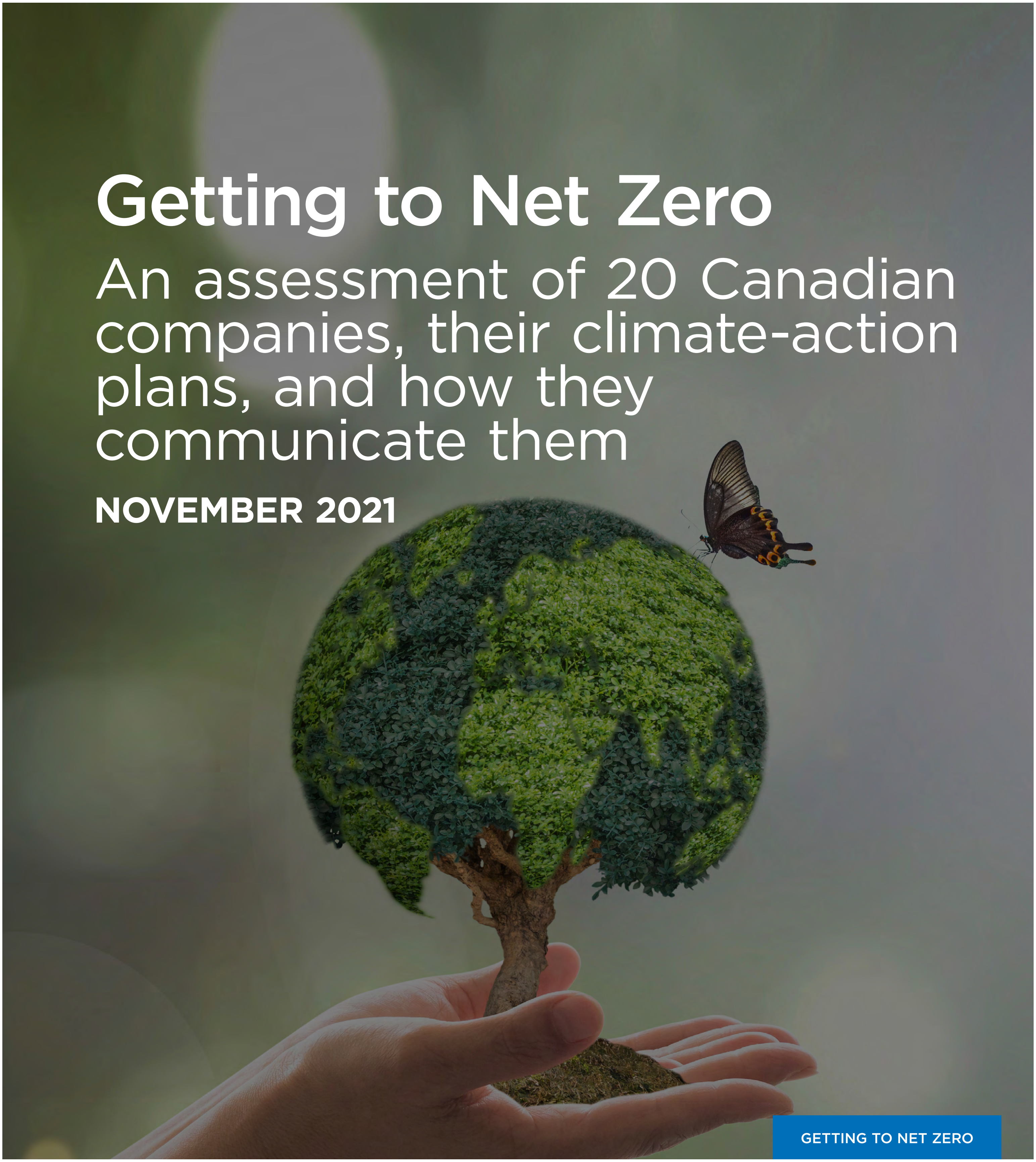

Getting to Net Zero

An assessment of 20 Canadian companies, their climate-action plans, and how they communicate them

NOVEMBER 2021

GETTING TO NET ZERO

CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Deloitte.

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Executive Summary

An increasing number of companies are disclosing net-zero carbon emissions targets (net-zero targets) to demonstrate their contribution toward mitigating the impacts of climate change. These targets are driven by mounting pressure from investors, regulators, government bodies, and consumers, who are becoming increasingly aware of climate change and the systemic risk it poses to our society and the economy.

Climate change presents many risks that impact how Canadian companies operate. As such, they may need to transform their business models to reduce emissions through measures such as investing in renewable energy and carbon-capture storage solutions, decommissioning old assets, increasing spending in energy efficiency programs, and practising sustainable land and resource management.

The changing regulatory landscape and multitude of voluntary sustainability reporting frameworks have created diversity in how climate-related data (including details on net-zero commitments) is reported in Canada and globally.

To better understand the Canadian landscape, Chartered Professional Accountants Canada (CPA Canada) and Deloitte reviewed published documents from 20 Canadian public companies across several industries to understand their net-zero commitments and transition plans, as well as the extent of the disclosures that accompany them.

This research suggests room for improvement in current net-zero disclosure practices. Based on the disclosures, it was difficult to compare net-zero targets among companies and evaluate progress toward meeting them. In addition, action plans included varying levels of detail as to how net-zero goals would be achieved. Forward-looking information is a challenging area and preparers would benefit from additional guidance to enable clear, consistent, and comparable disclosures around net-zero targets.

This research is intended to enhance discussion around this important subject area and identify opportunities for companies to improve disclosure of their net-zero targets.

For more information

If you have any questions or comments about this paper, please contact:

Amy Yacyshyn, CPA
Principal, Sustainability Reporting and Assurance
CPA Canada
ayacyshyn@cpacanada.ca

Nura Taef, CPA, CA
Co-lead, ESG Reporting Advisory
Deloitte
ntaef@deloitte.ca

Summary of Key Findings

- 65% disclosed net-zero targets
- 60% have established long-term, forward-looking transition plans
- 35% have targets or plans aligned with the Paris Agreement
- All disclosed a general GHG target (i.e., either reduction or net zero)
- Emission baseline and target years vary
- 60% disclosed interim targets
- 70% have established a specific board committee responsible for overseeing transition
- The level of detail in transition plans vary
- Net-zero disclosures found across various documents and presented in various formats

What is Net Zero?

Climate change presents challenges for both human and other natural ecosystems due to the impact global warming has on our environment. The effects have been brought into sharp focus through recent events such as wildfires in British Columbia and Alberta, extreme heatwaves across Canada, and increased flooding in Ottawa. Climate-related risks affect our health, livelihood, food security, water supply, human security, and economic growth.

According to a special report issued by the Intergovernmental Panel on Climate Change (IPCC), to keep warming to 1.5˚C above pre-industrial levels, global emissions must reach "**net zero**" by 2050 (Intergovernmental Panel on Climate Change, 2018). Reaching net-zero emissions involves achieving a state in which a company's value chain produces no net accumulation of carbon dioxide in the atmosphere and no net impact from other greenhouse gas emissions (CDP, 2020).

Canada's climate change commitment

Under the terms of the Paris Agreement, Canada has committed to reducing its GHG emissions to 40–45% below 2005 levels by 2030, and under the *Canadian Net-Zero Emissions Accountability Act*, the country has pledged to reach net-zero GHG emissions by 2050 (Government of Canada, 2021a).

In the April 2021 federal budget, the Canadian government allocated $17 billion to climate-action investments (Government of Canada, 2021b).

In addition to net-zero targets, companies may disclose:

Carbon neutral targets (TCFD, 2021): while some emissions are still being generated by a company, these emissions are being offset somewhere else, making the overall net-emissions zero

Zero-carbon targets (TCFD, 2021): no carbon emissions are being produced from a product or service

Paris-aligned targets (TCFD, 2021): a commitment in line with the Paris Agreement goal to hold the increase in the global average temperature to well below 2˚C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5˚C

Science-based targets (SBTi, n.d.): provide a clearly defined pathway for companies to reduce GHG emissions. Targets are considered science-based if they are in line with what the latest science deems necessary to meet the goals of the Paris Agreement

The private sector, including the financial and investment communities, has a significant part to play in meeting Canada's climate-change commitments. Canadian companies need to re-evaluate the way they work and embed climate matters into their strategies and business models.

At the G7 finance ministers' meeting in June 2021, members agreed to hold companies accountable for disclosing climate-related risks "to help mobilise the trillions of dollars of private sector finance needed [to 'green' the global financial system] and reinforce government policy to meet our net zero commitments (Government of Canada, 2021)."

Regulatory Requirements

The Canadian Securities Administrators (CSA) have historically issued guidance for public issuers to help them meet their reporting obligations relating to climate change. Recently, they issued a proposal for public comment concerning mandating climate-related disclosure (Canadian Securities Administrators, 2021). Stay tuned for further updates on this proposal.

In addition, due to the nature of climate events, climate-related disclosures can constitute *forward-looking information*, as defined by the CSA, if they include discussions of the financial impact on the company's operations.

Increased interest from regulators on net-zero claims

In September 2021, the Australian securities regulator (ASIC) published an update warning that it will take "regulatory action" against companies that it believes are making misleading net-zero claims. ASIC has already "intervened" in an IPO over concerns about the company's net-zero claims (Verney, 2021).

Under Canadian securities legislation, forward-looking information is defined as "disclosure regarding possible events … that is based on assumptions about future economic conditions and courses of action …." The CSA requires that forward-looking information disclosures include information such as material risk factors and assumptions (Canadian Securities Administrators, 2009).

Breakdown of Key Findings

Given national commitments and ambitious targets for reducing GHG emissions, leading corporations have followed suit and identified long-term GHG reduction strategies aimed at achieving net zero by 2050. These targets are under enhanced public scrutiny. It is one thing to announce a net-zero target and quite another to have a credible plan to get there.

This section provides a breakdown of the key research findings.

Targets and Plans

100% of companies disclosed commitments aimed at reducing GHG emissions, with 65% of these commitments being net-zero commitments

All companies reviewed have committed to some level of emissions reduction. Examples of the variation in commitments across companies include:

- achieving net-zero GHG emissions by 2050 or earlier
- reducing GHG emission *intensity* by 20-35% by 2030 or earlier
- reducing *absolute* GHG emissions by 2030 or earlier
- reducing Scope 1, Scope 2 and Scope 3 emissions
- achieving carbon neutrality
- achieving a net-zero investment portfolio by 2050

Emission Scopes:

- Scope 1: direct emissions
- Scope 2: indirect emissions from the generation of purchased energy
- Scope 3: all other indirect emissions linked to the company's operations

Targets:

- Absolute target: aims to reduce GHG emissions by a set amount
- Intensity target: sets a company's emissions targets relative to an economic output

Type of target/commitment by industry

Industry	General emission reduction targets[1]	Net-zero commitment-with interim emission reduction targets[2]	Net-zero commitment-without interim emission reduction targets	Total
Energy, resources, industrial	2	2	1	**5**
Manufacturing	1	1	3	**5**
Financial services	1	2	2	**5**
Consumer goods, Other	3	0	2	**5**
Total	**7**	**5**	**8**	**20**

1 *General emission reduction targets refer to the company's commitment to reduce its emissions. However, the company has not committed to achieving net zero.*

2 *Interim emission reduction targets refer to targets at dates throughout a timeframe between the emission baseline year and the target year. Interim emission reduction targets enable organizations to evaluate progress towards meeting ambitious emission reduction goals.*

Types of general emission reduction targets

Type of target	Example	Total
Quantitative targets-specified by Scope	The company has determined a specific quantitative target to contribute to its emissions reduction, and this target has been further detailed through specific Scope reductions (i.e., Scope 1, 2 or 3) (e.g., reduce Scope 1 emissions by XX% by 20XX).	**2**
Quantitative targets-not specified by Scope	The company has determined a specific quantitative target to contribute to its emissions reduction; however, this target is not further detailed by specified Scopes (i.e., Scope 1, 2 or 3) (e.g., reduce emissions by XX% by 20XX).	**4**
Qualitative only	While the company has made a commitment to reduce its emissions, it has not established targets for this reduction.	**1**
Total		**7**

A majority of companies disclosed GHG targets

Of the total population of 20 companies:

- Eight companies committed to net zero without stipulating any interim reduction targets leading up to their net-zero commitment.
- Five companies committed to net zero and also disclosed an interim reduction target leading up to their net-zero commitment.
- The remaining seven companies did not commit to net zero but committed to future emissions reductions.

Of the seven companies that did not provide net-zero commitments:

- Two companies disclosed their reductions in terms of the specified Scopes that would be reduced (e.g., Scope 1 emissions would be reduced by 25% by 2030, Scope 2 emissions by 50% by 2030, etc.).
- Four companies disclosed their reductions more generally but did not specify or differentiate by the particular Scopes (e.g., reduce emissions by 75% by 2030).
- One company stated they planned to reduce emissions but provided no quantitative threshold.

Of the 12 companies with reduction targets (i.e., the five with interim targets and the seven with general targets), the energy, resources and industrial companies and the financial services companies had the largest reduction targets.

60% of companies have established long-term, forward-looking transition plans

Most of the transition plans reviewed included a quantification of Scope 1, 2, and 3 emissions with reduction targets for, at a minimum, Scopes 1 and 2.

Among those, some common themes for how companies approached their emission reduction targets emerged:

- investing in advanced technologies
- implementing energy-saving initiatives
- adopting renewable energy sources
- increasing spending on energy-efficiency programs
- advancing capabilities in climate risk management and climate-related disclosures
- use of carbon credits or offsets

In their transition plans, companies across all industries consistently used *reduction of energy consumption* as a key action in their approach to achieving net zero. Companies in the financial services industry had significantly more detailed analyses on potential climate-related risks as well as more thorough transition plans than others. The level of detail in transition plans among other industries differed significantly.

What are carbon offsets and carbon offset credits?

Carbon offsets: a reduction in GHG emissions or an increase in carbon storage used to compensate for emissions that occur elsewhere (e.g., tree planting).

Carbon offset credits: transferrable instruments certified by governments or independent certifying bodies to represent an emission reduction of one metric tonne of $CO2$, or an equivalent amount of other GHGs (Carbon Offset Guide, n.d.).

Linking emission reduction targets to financing

In recent years, there has been an increase in the popularity of green bonds and loans, sustainability-linked bonds and loans, and sustainability bonds, which have varying financial covenants tied to the borrower or bond issuer's emission reduction targets.

Examples include:

- **Gibson Energy's Sustainability Linked Credit Facility:** requires a 15% reduction of Scope 1 and Scope 2 GHG emissions by 2025.
- **Enbridge's Sustainability-Linked Bond:** objectives are partly based on reductions in Scope 1 and 2 GHG emissions intensity by 35% by the end of 2030 relative to the 2018 baseline.

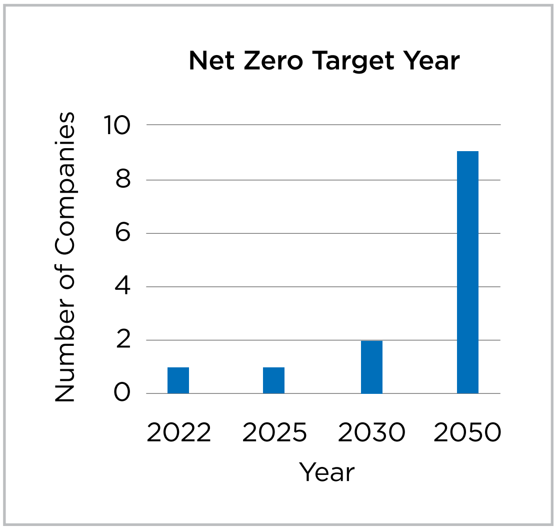
35% of companies have targets or plans aligned with the Paris Agreement

Seven of the 20 companies disclosed forward-looking targets or plans that include emission-reduction targets aligned with the required reductions to ensure global temperatures do not rise by more than 1.5°C, as outlined in the Paris Agreement.

Three companies acknowledged the required emission reductions outlined in the Paris Agreement relative to their individual targets or transition plans but did not set out specific targets to meet them. The remaining 10 companies made no comment about whether their targets or plans were aligned with the Paris Agreement.

Emission baseline and target years vary

An *emission baseline year* is the point in time against which a company measures their emission reductions. For example, Canada has committed to cutting GHG emissions by 40-45% below 2005 levels by 2030 (Cision, 2021). In this case, the emission baseline year is 2005.



In the companies sampled, there was no consistency in the baseline years used to set reduction targets.

Companies also differed in their willingness to commit to specific target dates. All companies that had net-zero commitments (i.e., 13 companies) provided a target year of 2050 or earlier for achieving net zero, with the most common target year being 2050.

Of the companies that committed to net zero, 38% disclosed interim targets

An *interim target* indicates a target between the emission baseline year and the target year. Of the 13 companies committed to net zero, only five set interim targets while the remaining eight did not disclose interim targets. The most common interim target was 2030.

> ***Long-term net-zero targets should be supported by interim science-based emission reduction targets to drive action within timeframes that are aligned with corporate planning and investment cycles and to ensure emission reductions that are consistent with Paris-aligned mitigation pathways (CDP, 2020).***

Governance Structure

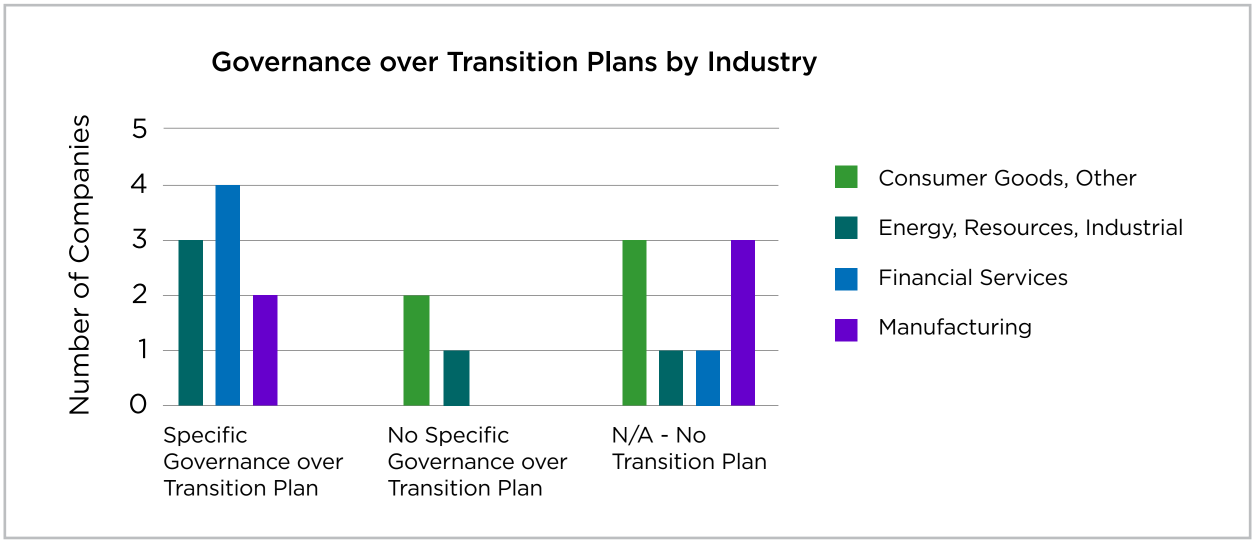
70% of companies have established a specific board committee responsible for overseeing sustainability commitments

Putting appropriate governance structures in place and ensuring climate-related targets are integrated with a company's existing strategies are crucial to achieving net zero.

Fourteen out of 20 companies have established a governance structure responsible for overseeing their sustainability commitments. Of the 14, 12 have created committees specifically responsible for overseeing their transition plan. These committees are referred to differently across the various companies using names such as:

- Corporate Social Responsibility Committee
- Environmental, Social and Governance (ESG) Committee
- Climate Change Task Force

For those 12 companies with a specific governance structure, nine had governance structures separate from the board of directors, with the remaining 3 companies disclosing that the board of directors oversees the transition plan as an additional responsibility.



Communication

Net-zero disclosures found across various documents and presented in various formats

Companies can use different methods of communicating their net-zero targets to the public. A majority of companies communicated their net-zero targets as part of a news release or included the targets within a sustainability report.

Companies also used a variety of formats to present their net zero targets and pathways. Some used tables to present key performance indicators and typical data visualizations include scatterplots to illustrate materiality assessments and infographics to highlight specific statistics.

> *"We cannot get to net-zero without proper climate reporting. Full stop. It is just too complex. [Getting to net-zero] involves every company in every sector, every region of the world. We need that information. We need to know who has a plan, who needs capital, and who is lagging behind."*
>
> — Mark Carney, Interview with CPA Canada

Disclosure Challenges

Tools to help guide net-zero target disclosure

Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD framework is a set of climate-related financial-disclosure recommendations designed to help companies provide decision-useful information to investors.

Science Based Targets Initiative (SBTi)

The SBTi provides a pathway for companies to reduce GHG emissions in line with science-based targets. Targets are considered "science-based" if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

Global Reporting Initiative (GRI)

GRI is an international organization that provides the world's most widely used standards for sustainability reporting.

CDP (formerly the Carbon Disclosure Project)

The CDP is an international non-profit charity that provides guidance on the disclosure of environmental impacts.

Complexity in measuring emissions, particularly Scope 3

Measuring emissions can be difficult, particularly Scope 3 emissions, which occur along the value chain of a product or service. There is diversity in sustainability assessment tools; companies need to make judgments and assumptions based on climate-related data measurements, which are often not disclosed. Consequently, measurement asymmetries and the lack of transparent reporting make it difficult to compare companies and ultimately erodes the credibility of ESG analysis (Wilk, 2021).

Changing regulatory landscape and multitude of sustainability frameworks

Legislation and regulation also pose significant challenges for companies on the path to net zero. Without clarity as to how the federal and provincial governments will support net-zero carbon goals, it is difficult for companies to understand and measure their business risk and the costs associated with transitioning to a lower-carbon economy. Numerous voluntary frameworks offer varying guidance on setting targets (e.g., SBTi, CDP) and determining GHG disclosures (e.g., TCFD, SASB, GRI). Until a mandatory, unified standard is established, companies may be hesitant to invest time, money and resources into one or more frameworks. The IFRS® Foundation's proposal to create an International Sustainability Standards Board is a positive development that has been broadly supported by capital market participants and regulators in Canada and globally (IFRS Foundation, 2021).

Conclusion

The quality of disclosures around net-zero targets varies widely. Canadian companies are at different stages in their net-zero journey as evidenced by the differences in their commitments, plans and actions. More prescriptive guidance as well as significant investments of capital are required to help companies create and execute their climate-action plans. Large leaps in innovation are needed for the Canadian economy to become less reliant on fossil fuels and decouple economic growth from the growth of carbon intensity. Ultimately, every company has a role to play in charting a sustainable path forward.

With the increased attention on net zero and the movement toward a set of global sustainability reporting standards, additional guidance is expected to be established that will ensure companies can meaningfully disclose their net-zero targets and transition plans in a consistent and comparable way.

Appendix A: The Road to Net Zero

As companies transition to a low-carbon economy, they will need to transform their business models by developing solutions to significantly reduce emissions. This transformation starts with some of the following considerations:

- Understand senior management's commitment to net zero
- Understand the types of targets available – absolute vs. intensity
- Decide on the target boundary
  - Which GHGs?
  - Direct and indirect emissions?
  - Which geographical operations?
  - Treat business units separately?
- Choose the target base year
  - Single or multi-year?
- Assess emissions projection
  - What is the company's business as usual emissions level in the future?
- Define target year
  - Long-term (2036 – 2050), medium-term (2026 – 2035), or short-term (up to 2025)
- Define length of target commitment period
- Decide on the level of ambition and target statement
  - Net zero, carbon neutral, Science Based Target Initiative (SBTi)
- Decide on the use of offsets or avoided emissions
- Track and report progress
  - Regular performance checks relative to target

Appendix B: Companies Reviewed

This report is based on the most recent publicly available sustainability information (e.g., voluntary stand-alone sustainability reports, annual reports, public announcements and other publications) by 20 Canadian companies across a variety of industries, geographies, and sizes. These included five companies in each of the following sectors:

- Energy, Resources, and Industrial
- Manufacturing
- Financial Services
- Consumer Goods and Other

Appendix C: Additional Resources

- United Nations Climate Change (n.d.). Race to zero campaign.
- Science Based Targets (n.d.). Ambitious corporate climate action.
- Task Force on Climate-related Financial Disclosures (n.d.). Publications.
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