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Corporate GHG disclosure: mind the gaps The case of DAX-40 companies illustrates significant inconsistency in scope-3 reporting

Only half of companies in Germany's benchmark DAX-40 stock market index have reported on more than four of 16 categories of indirect greenhouse gas emissions, presenting fund managers with a headache as new EU environmental regulations come into force.

Fund managers are due to start ESG reporting, including indirect or so-called scope-3 GHG emissions, on their investment portfolios from next year when the EU's Sustainable Finance Disclosure Regulation (SFDR) comes into force. But there is problem of regulatory timing. Larger companies themselves start reporting only in 2025 on their 2024 figures to comply with the EU's Corporate Sustainability Reporting Directive (CSRD). Until that happens, DAX-40 disclosure shows how uneven the available data are.

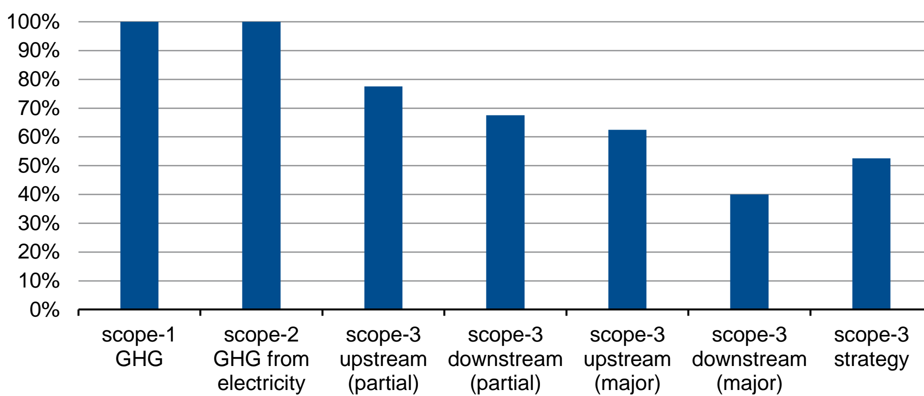
Inconsistent ESG reporting, by no means confined only to Germany's larger companies, makes it hard, if not impossible, for fund managers invested in these companies to comply with the SFDR or make consistent decisions in putting together sustainability-linked portfolios. Most large EU companies today report transparently on their own emissions and energy use, but as our DAX-40 study shows, there are large gaps in disclosure on exposure to indirect emissions through the value chain, from imported inputs to the use of sold products.

Seven DAX-40 companies have not reported on scope-3 GHG emissions at all. Six have reported on no more than two categories. Less than 50% have reported on the most relevant category "use of sold products" and only 26 provide information on the emissions in "purchased goods and services" (see **Appendix**). In addition, companies use different methodologies to account for their indirect emissions.

GHG reporting among DAX-40 companies

The Greenhouse Gas Protocol provides a taxonomy for accounting for emissions across different categories, from direct emissions through combustion in own operations (scope-1) and energy consumption (scope-2) to indirect emissions from the production of inputs or intermediates (scope-3 upstream) and emissions during subsequent use of produced output (scope-3 downstream). Financial institutions' own footprints are predominantly determined by emissions from investments, captured under scope-3 downstream.

Figure 1: Greenhouse Gas emissions disclosure among DAX-40 companies 2021
Share of reporting companies



N.B. Partial reporting includes companies, which report on at least one category of scope-3; major reporting refers to purchased inputs for upstream and use of sold products categories in downstream. Scope-3 strategy includes companies with an explicit quantitative scope-3 target.

Source: Annual, Integrated and/or Sustainability Reports 2021

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The importance of scope-3 emissions

Multi-counting exaggerates scope-3 emissions

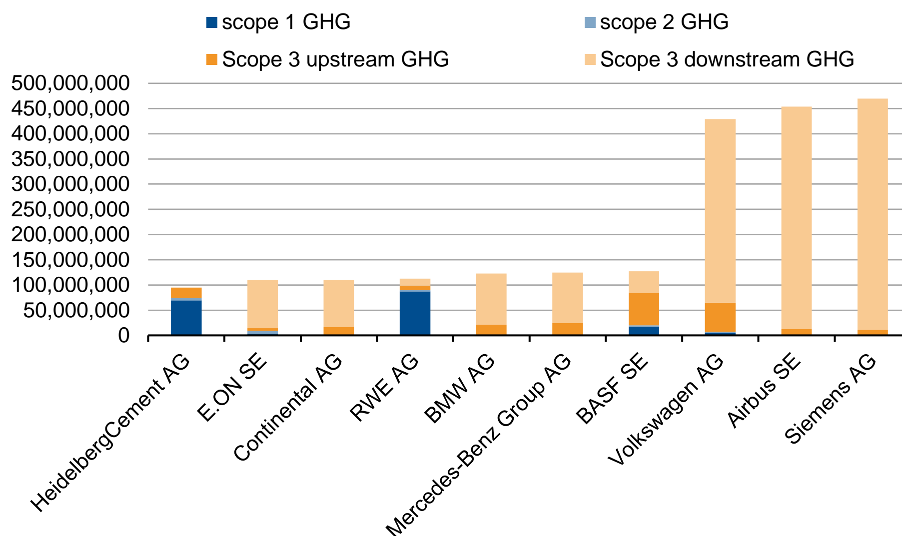
The differentiation between different scope dimensions in greenhouse gas emissions is important because scope-2 and scope-3 emissions are counted multiple times across companies. In other words, the scope-1 emissions of company A show up again as scope-2 or scope-3 on company B's emission accounts if they purchase company A's production. For instance, a share of the direct emissions produced by tyre manufacturer Continental AG serve as scope-3 upstream emissions in BMW AG's or Volkswagen AG's accounts. Similarly, Continental reports on the use phase emissions produced in final use of their products, i.e., fuel combustion from cars.[1]

Scope-3 accounting aims at shared GHG responsibility

If we look at the 10 highest emissions-reporting companies in absolute terms (see **Figure 2**), large companies Siemens AG, Airbus SE and Volkswagen show by far the highest use-phase emissions of, respectively, electrical equipment, aircraft and cars. The exposure of Airbus, Siemens and Volkswagen to the high emissions from the use of their products explains the gap between them and other DAX companies

The difference in relative scope-level importance across companies is important to understand the prioritisation of emission-reduction objectives. For instance, companies like HeidelbergCement AG or RWE AG have a significant direct emissions impact, where one unit of CO2 reduction automatically also lowers the scope-3 emissions of their clients. As such, a reduction of the scope-1 footprint benefits the environmental accounts of multiple companies. Companies also benefit from where their operations are located if their activities are in countries with a low-carbon electricity mix, leading to a smaller scope-2 footprint.

Figure 2: Most transparent emissions reporting among DAX-40 companies
Top-10 GHG reporting companies in 2021 (tons of CO_2-equivalents)



Source: Annual, Integrated and/or Sustainability Reports 2021

DAX disclosure: missing or inconsistent reporting

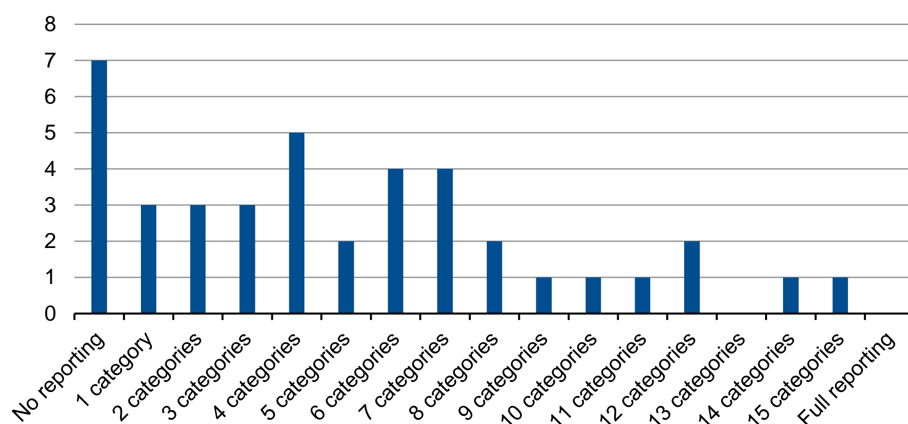
Out of the 40 DAX companies, only 50% have reported on more than four of 16 scope-3 GHG categories. Seven companies have not reported on scope-3 at all and six have reported on no more than two categories. Less than 50% of companies have reported on the most relevant categories "use of sold products" and only 26 of 40 provide information on the emissions in "purchased goods and services". In addition, companies use different methodologies to account for their indirect emissions. As

[1] Details on the calculation can be found on p. 19 of Continental's integrated sustainability report for 2021.

such, GHG reporting remains inconclusive and inconsistent even for some of the largest companies in Germany. At the same time, financial market participants must report on scope-3 emissions in their portfolios by next year to comply with the SFDR.

In the worst case, this could lead to exclusions of entities with high reported scope-3 emissions while including companies with significant underreporting. Full reliance on corporate-disclosed information could induce adverse selection among asset managers. Companies often choose different sub-categories for their individual scope-3 reporting which do not necessarily relate to the most relevant categories (see **Figure 3**). A textile company is mostly subject to emissions from the supply chain, while a car manufacturer faces the highest share of emissions in the use of sold products.

Figure 3: Frequency of GHG scope-3 reporting across emissions categories
Number of DAX-40 companies reporting in each category (2021)



Source: Annual, Integrated and/or Sustainability Reports 2021

Financial industry provides limited information on financed emissions

Among the non-reporting companies, banks and insurance companies are least likely to report scope-3 information. While most of the categories are less relevant for financial institutions, the most important information relates to emissions from companies in which they have invested or lent to. Insurer Allianz and Deutsche Bank report on scope-3 from investments, i.e., the volume of financed emissions. As of today, the reporting scope is limited and only includes loans to carbon-intensive sectors (10% of total assets in the case of Deutsche Bank). None of the financial institutions has a quantifiable reduction target for financed emissions which encompasses all their investments.

Large gaps on scope-3 reduction targets

50% of DAX companies report explicit but non-comparable scope-3 targets

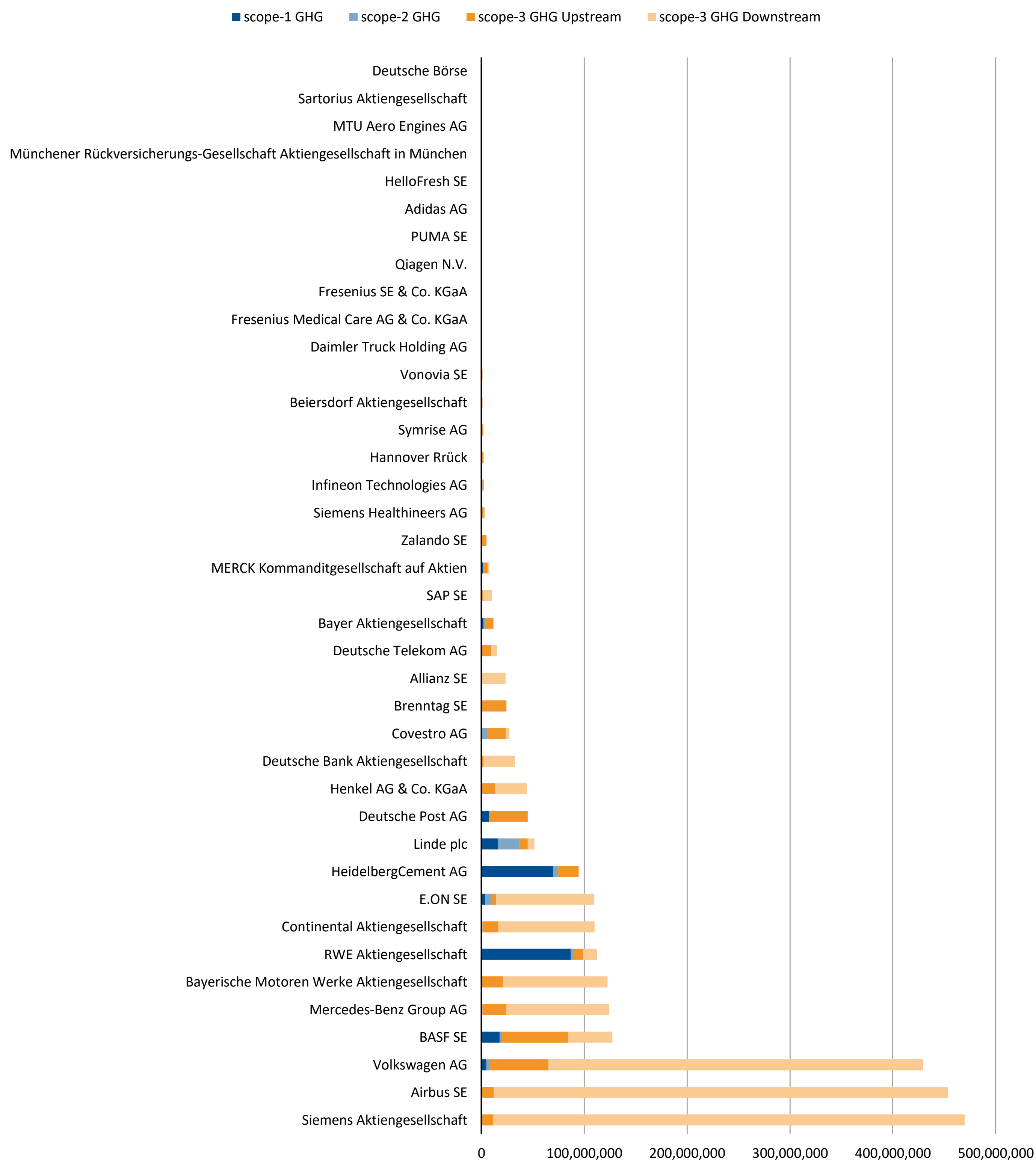
According to 2021 reported figures, only 50% of the DAX-listed companies defined an explicit quantifiable scope-3 target. The targets themselves differ substantially in size (10-40%), timing (2025-35), base year (2015-2018), and relevant business segments. Other companies have not defined explicit scope-3 targets while reporting quantitative targets on product level. For instance, car manufacturers define production targets for electrified vehicles versus vehicles on combustion engines, which have a direct impact on their scope-3 downstream emissions from the use of sold products. However, no explicit targets for scope-3 were defined although the downstream emissions are by far the most relevant for the industry’s transformation plans. Other companies currently work on calculating scope-3 emissions and plan to report by 2023 together with reduction targets. To conclude, reduction objectives for indirect GHG emissions are often not available and even if partially reported across companies and industries.

ESG ratings rarely rely on scope 3 information

With such incomplete data, providing ESG ratings is difficult based on corporate information. At the very least, it requires significant analytical input to evaluate the scope-3 information reported by a corporate. The impact of scope-3 emissions on ratings is limited because most rating providers process the information provided by corporates without further analyst input. Though scope-3 reporting specifically emissions related to purchased inputs or from use of sold products, which often dominate a corporate's carbon footprint, we rarely observe that corporates report on those because of the difficulty to account for emissions out of their direct control. ESG rating providers, which account for scope-3 emissions, often assess the governance of supply chain management, i.e., contracts with suppliers including minimum standards or exclusion criteria. However, these qualitative assessments lack precision in terms of comparability and scope compared with the available quantifiable information in scope-1 and scope-2 reporting.

Appendix.

Figure A1: Bottom heavy – indirect GHG emissions disclosure concentrated in minority of DAX-40 companies
GHG reporting by category (in tons of CO_2-equivalents)



Source: Annual, Integrated and/or Sustainability Reports 2021

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