

# DANMARKS NATIONALBANK

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More knowledge is necessary about companies' climate impacts

## Corporate climate communication is not associated with fewer emissions

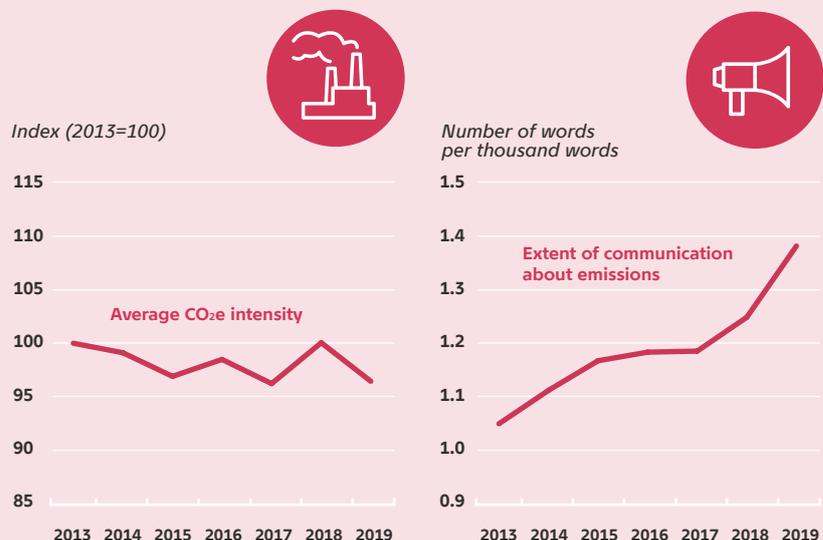
Companies are communicating more and more about efforts aimed at reducing their greenhouse gas (CO<sub>2</sub>e) emissions. However, there is no correlation between how much companies communicate about their CO<sub>2</sub>e emissions and the actual change in their emissions.

This is one of the main findings of a Working Paper by Senior Data Scientist Erik Axel Grenestam.

The study compares companies' communication about CO<sub>2</sub>e emissions with past, present and future developments in emissions. It is not possible to

### Companies communicate more about CO<sub>2</sub>e – unchanged level of emissions

Note: CO<sub>2</sub>e intensity measures CO<sub>2</sub>e emissions relative to revenue.  
Source: European Union Transaction Log, Bloomberg and own calculations



find a clear statistical correlation across these time horizons.

The study is based on the annual reports of 141 large European companies. The measure of emissions-related content is the number of words related to CO<sub>2</sub>e emissions relative to the total word count in the annual reports. The study covers the period 2013-2019.

The findings of the study underline the need for more knowledge about companies' emissions.

### **Insufficient knowledge about climate impacts may challenge the financial system**

The green transition puts companies with high CO<sub>2</sub>e emissions at risk of closure, unless they transition in time. This may result in losses for banks and investors that have lent to, or invested in, such companies. Information about companies' emissions is a prerequisite for banks and investors to be able to assess transition-related financial losses. The findings of the study indicate that companies' annual reports do not provide this information in a satisfactory manner. Similar international studies have reached the same conclusion using different methods.

Lack of information about companies' emissions makes it difficult for banks and investors to assess the effect on earnings resulting from a company's failure to transition. It may also be difficult for companies to assess and communicate the profitability of their green investment plans, as all companies – including those that fail to transition – might communicate about the transition.

Incorrect risk assessment of polluting companies may challenge the financial system, because lending to, and investments in, these companies risk ending up with banks and investors that do not have the capacity to absorb the losses associated with enhanced climate regulation.

### **Standards and regulation can ensure credible information**

Voluntary reporting on climate and sustainability is not sufficient. International reporting standards and regulation are needed. There is also a need for a systematic collection of the reported information.

Private organisations have established climate reporting standards. One example is the recommendations from the *Financial Stability Board's Task Force on Climate-related Financial Disclosures*, which sets standards for companies' climate-related reporting on governance, strategy and risk management.

The EU has taken similar important steps towards establishing common reporting rules. The Taxonomy Regulation sets common standards for whether a given economic activity can be said to contribute to different environmental and climate-related objectives. The Sustainable Finance Disclosure Regulation lays down requirements on financial market participants' and advisers' sustainability disclosure obligations in connection with investment decisions. The Corporate Sustainability Reporting Directive lays down requirements for large companies' reporting.

*Read the above-mentioned Working Paper "Walking the talk?" here: [\(link\)](#).*

# Climate change

Climate change is impacting society already today and will have further consequences in the future. A successful green transition will require unprecedented efforts, both in Denmark and abroad.

As a case in point, climate change and the transition to a greener economy will impact corporate earnings and economic activity. This may compromise price and financial stability in Denmark, which it is Danmarks Nationalbank's objective to ensure. It is therefore essential that Danmarks Nationalbank increases its knowledge of how, and by how much, the climate challenges will impact various parts of the economy.

Against this backdrop, Danmarks Nationalbank will focus on climate challenges in a series of publications.

## ABOUT THIS NEWS

This study compares companies' communication about CO<sub>2</sub>e emissions with the development in emissions. It is not possible to find a statistical relationship between these factors. Lack of information about companies' emissions makes it difficult for banks and investors to assess the effect on earnings resulting from a company's failure to transition.

## CO<sub>2</sub> concentration in the atmosphere

800,000 BCE to 2019 ACE

The chart shows the number of carbon dioxide molecules per million molecules of dry air.

CO<sub>2</sub> (parts per million)



## PUBLICATIONS



### NEWS

News offers quick and accessible insight into an Analysis, an Economic Memo, a Working Paper or a Report from Danmarks Nationalbank. News is published continuously.



### ANALYSIS

Analyses from Danmarks Nationalbank focus on economic and financial matters. Some Analyses are published at regular intervals, e.g. *Outlook for the Danish economy* and *Financial stability*. Other Analyses are published continuously.



### REPORT

Reports comprise recurring reports and reviews of the functioning of Danmarks Nationalbank and include, for instance, the *Annual report* and the annual publication *Danish government borrowing and debt*.



### ECONOMIC MEMO

An Economic Memo is a cross between an Analysis and a Working Paper and often shows the ongoing study of the authors. The publication series is primarily aimed at professionals. Economic Memos are published continuously.



### WORKING PAPER

Working Papers present research projects by economists in Danmarks Nationalbank and their associates. The series is primarily targeted at professionals and people with an interest in academia. Working Papers are published continuously.

The news article consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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