

Climate-related disclosure in Brazil

A review of IBrX 100 listed companies' climate-related disclosure in annual reports

The Climate Disclosure Standards Board (CDSB), with support from CDP, has completed a review of the annual reports of IBrX 100¹ listed companies to gain insight into the current state of corporate climate-related reporting in Brazil and to uncover the market's readiness for implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In doing so, this review focuses on identifying the presence of climate-related disclosure and does not attempt to examine the quality or accuracy of what has been reported. This briefing summarises the key findings from this review.

Reporting norms in Brazil

In the context of Brazil, there are few mandatory reporting requirements for sustainability reporting. Listed companies are required to publish a number of documents that reflect the company's strategy, financial results, risks and opportunities. For example, Instruction CVM 480², issued by the Brazilian Securities and Exchange Commission (CVM), requires listed companies in Brazil to publish an annual Reference Form. Whilst this includes information about the company's activities, risk factors, and financial data, there is no specific requirement for climate-related information.³ Despite this, many large public companies publish annual sustainability reports voluntarily.⁴

Review

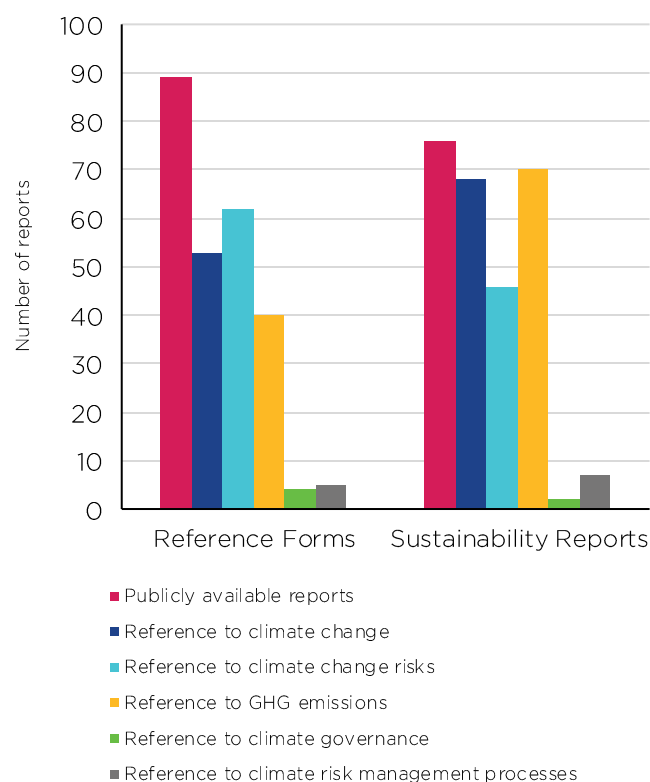
The review assessed disclosures made by IBrX 100 listed companies against criteria that represent the basic requirements of the TCFD recommendations, and primarily focused on publicly available Reference Forms and Sustainability Reports, with the latter referred to as Annual/Integrated Reports, in both English and Portuguese. This review, undertaken in February 2021, focused on the most recent publications from 2020. Not all companies within the sample had publicly accessible reports. Of the 100 companies examined, 89 made their Reference Form available, whilst 76 companies provided a Sustainability Report.

Findings

Location of disclosure

The review found that climate-related information was disclosed across both the Reference Forms and Sustainability Reports (Figure 1). Generally, the companies that published Sustainability Reports use this reporting channel to describe their greenhouse gas (GHG) emissions data. In contrast, climate-related risks were more commonly disclosed in the Reference Form. The following sections describe these disclosures in more, including the disclosure nuances.

Figure 1 Location of climate-related disclosures in Reference Forms and Sustainability Reports



¹ B3 IBrX 100 companies http://www.b3.com.br/en_us/market-data-and-indices/indices/broad-indices/indice-brasil-100-ibrx-100-composition-index-portfolio.htm
² CVM Instruction No. 480, of December 7th., 2009 http://conteudo.cvm.gov.br/export/sites/cvm/subportal_ingles/menu/investors/anexos/CVMInstruction480.pdf
³ Sustainable Stock Exchange Initiative, <https://sseinitiative.org/securities-regulator/disclosure-reference-form-2009/>
⁴ The Reporting Exchange, <https://www.reportingexchange.com/>

It was noted that, although climate change was referenced within both reports, rarely was it directly linked to either a climate strategy or the overall company strategy. The most common approach was to include a dedicated climate change section in the Sustainability Report which focused on emissions reduction activities and emissions data. This structure, which was generally adopted in the Sustainability Reports, followed the guidance of the GRI standards. In addition, 37 companies within the sample referenced to their climate-related disclosure through CDP (formerly Carbon Disclosure Project), whereas only 12 companies referenced the TCFD (Figure 2).

Figure 2 Number of companies that reference disclosure in line with CDP and TCFD



Governance disclosures

Disclosure on general corporate governance arrangements was common in both reports, however there was significantly less information on climate governance. All Reference Forms included information on the roles and responsibilities of senior leadership as required in section 12 of the form. However, only 4 companies included specific reference to governance of climate change matters in these reports. Similarly, most Sustainability Reports included a section on general corporate governance arrangements, with only 2 companies providing direct reference to governance of climate-related matters.

Although there was little reference to climate governance, a more common approach used by 64 companies was to describe the governance of sustainability matters. These references varied from details about sustainability committees to brief mentions of sustainability under the roles and responsibilities of either the board or board committees.

Strategy and climate-related risks

The review uncovered a variety of approaches used to disclose climate-related risks where 62 companies noted climate-related risks in the Reference Forms and 46 companies provided this information in the Sustainability Report.

Figure 3 Number of companies that reference physical risks in either the Reference Form or Sustainability Report

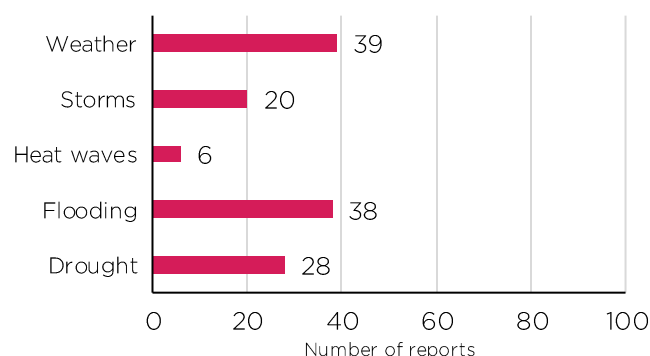
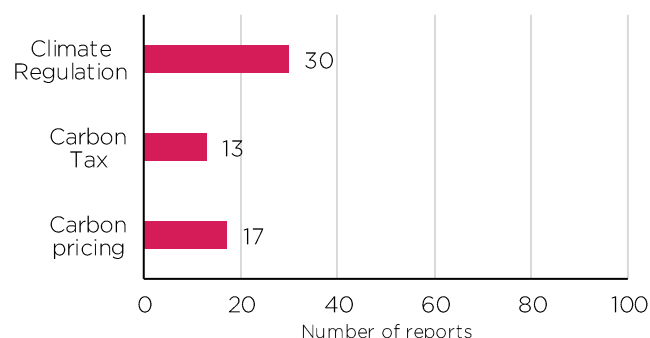


Figure 4 Number of companies that reference transition risks in either the Reference Form or Sustainability Report



Reference to physical risks were more frequent than transition risks⁵ (Figure 3 and 4). The most common physical risks, “weather” and “flooding” were referenced by 39 and 38 companies, respectively. In contrast, transition risks, such as climate regulations and carbon pricing, were only referenced by 28 and 16 companies, respectively.

It is important to note that companies rarely associated or directly linked the physical risks with climate change as a key driver. Instead, these risks were regularly referred to as “climatic conditions” or “events” and were often briefly mentioned alongside emerging risks that include terrorism, cyber-attacks, and/or the COVID-19 pandemic.

Only 12 companies provided information regarding scenario analysis in either report, in accordance with the TCFD recommendations. Whilst the term “scenarios” had been used in relation to climate-related risk by some companies, there was little indication that the analysis had been completed.

⁵ The definitions for physical risks and transition risks are taken from the TCFD Final Report (2017) <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

Risk management processes

As with governance disclosures, most companies had sections in both or either the Reference Forms and Sustainability Reports that focused on company-wide risk management processes but with little direct reference to climate change. Section 5 of Reference Forms requires information of the risk management processes and internal controls, whilst 66 companies included a similar section in the Sustainability Report. However, only 17 companies mentioned or reference climate change within these sections. Additionally, only 11 companies referenced risk management processes directly related to climate change.

Overall, the review noted more references to climate change in the risk management process within Sustainability Reports (20 companies) than within Reference Forms (5 companies).

GHG data and targets

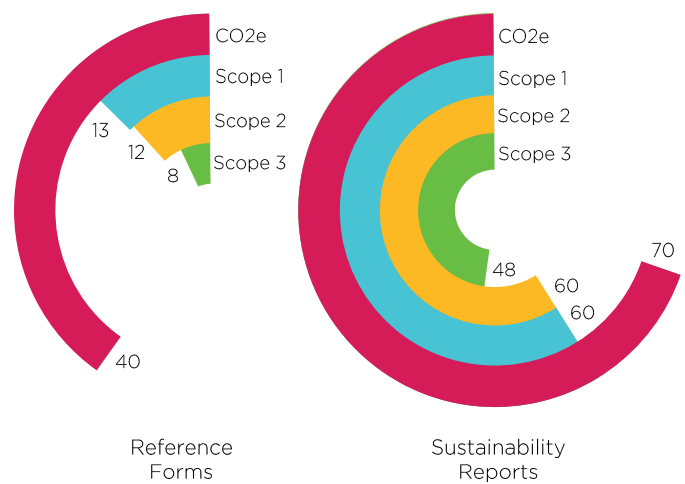
The review found that it is common practice for IBrX 100 companies to provide information on their GHG emissions, especially in the Sustainability Reports. In total, 75 companies referenced their GHG emissions in either the Reference Form or Sustainability Report. Out of these companies, 62 provided Scope 1 and 2 data, with 50 companies also including data on Scope 3 emissions⁶. In contrast, fewer companies (35) provided carbon intensity data (i.e., normalised emissions per relevant unit).

Although 75 companies provided information about their GHG emissions, only 46 had a

climate-related target. Different approaches to target setting had been taken, with a mixture of qualitative and quantitative targets. Not all targets were connected to emissions reduction commitments as some were vague and generalised. For example, some companies had targets to monitor and manage emissions without clear ambitions to reduce emissions.

Only 9 companies stated that their targets were, or were in the process of becoming, approved as science-based through the Science Based Target Initiative (SBTi).

Figure 5 Number of companies that provide data on GHG emissions in the Reference Form and Sustainability Report



Conclusions

Based on the findings of this review, it is clear that IBrX 100 companies already disclose some climate-related information but further progress is needed towards fully implementing the recommendations of the TCFD.

- Brazilian companies predominately use the Sustainability Report as a vehicle to disclose GHG emissions, whereas the Reference Form is used to disclose climate-related risks (Figure 1).
- Across the IBrX 100, implementation of the TCFD recommendations is still in its infancy with only 12 out of the 100 companies referencing the TCFD (Figure 2).
- Companies are required to disclose governance and risk management processes, especially in sections 5 and 12 of the Reference Form. However, there was little reference to climate change in these sections with only 17 companies directly addressing climate change as part of the risk management processes.
- Although companies reference climatic- and weather-related risks, the links to climate change need to be stronger. Overall, climate-related risk disclosure requires significant development (Figure 3 and 4).
- Disclosure of GHG emissions data is well established in Brazil, with references to Scope 1, 2 and 3 data (Figure 5). However, more progress is needed on setting appropriate and timebound targets.

⁶ The definitions of Scope 1, Scope 2 and Scope 3 are taken from the GHG Protocol Corporate Reporting Standard (2004) <https://ghgprotocol.org/corporate-standard>

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