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MSCI Publishes Latest Annual Report on Public Company Climate Progress

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According to the recently published **MSCI May 2023 Net Zero Tracker report**, more listed companies are making climate commitments, setting decarbonization targets, and providing related disclosures, but these steps have not resulted in reductions of direct emissions by those companies. The report is the latest edition of the firm's periodic reporting on progress by public companies towards the Paris Agreement's goal of limiting global temperature increases to 1.5 degrees Celsius above pre-industrial levels.

MSCI's report is based on its All Country World Investable Market Index, which includes large-, mid- and small-capitalization listed companies across 23 developed market and 27 emerging market countries, covering approximately 99% of global equities.

The report shows a broad range of commitments made by the companies analyzed. While nearly half (44%) of public companies have set decarbonization targets, only 17% of those targets, if achieved, would align emissions with the Paris Agreement's 1.5oC goal. Just over half (51%) of listed companies align with a warming below 2 degrees Celsius. Even within those net zero targets, some companies rely on carbon offsets lacking third-party validation. MSCI reports that listed companies will emit 11.2 gigatons of direct Scope 1 emissions in 2023, showing no change since 2022. That accounts for 18.6% of global emissions, and demonstrates, according to MSCI, that "the trajectory of both global and corporate carbon emissions" was not permanently reduced either by the global financial crisis or coronavirus pandemic. MSCI reports that the proportion of listed companies providing "at least some of their Scope 3 emissions" has increased to more than a third, up from around 30% seven months

ago. This comes as Scope 3 emission reporting is becoming more commonplace as the regulatory landscape moves closer towards mandatory climate disclosure requirements.

MSCI also examined by industry revenue exposure to alternative energy, energy efficiency, and green buildings. REITs, utilities and companies in the real estate management, automobiles and capital goods sectors had the largest exposures, with banks, insurance companies, consumer services firms, biotech and life sciences and pharmaceutical companies having the lowest exposure. Because some "of the largest shares of sustainable impact revenue show up in utilities and other carbon-intensive industries," MSCI contends that investors may need to "tolerate more portfolio emissions in the near term – particularly in industries that are hard to decarbonize – to drive down emissions in the real economy by 2050."

Taking the Temperature: We have previously reported on the challenges faced by companies in meeting their net-zero pledges – including the potential risk of regulatory enforcement action or civil litigation due to a company's lack of progress toward or inability to meet a disclosed net-zero commitment in a timely fashion. With this in mind, the report highlights that even where a company discloses a climate target, often that would not result in meeting Paris-aligned goals. Shareholder and regulatory scrutiny of this issue has been increasing. We previously discussed climate activist shareholder group Follow This's bid to push several oil majors to set more ambitious targets covering Scope 3 emissions. Likewise, Border to Coast Pension Partnership, a pension pool consisting of 11 UK local government pension schemes, announced that "[o]il majors and banks must make greater progress on climate pledges or risk losing the support of Border to Coast Pensions Partnership on key votes this" Annual General Meeting season. Similar pressure has recently been exerted by New York City pension funds.