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The Three A's Of Investor-Grade Emissions Data

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At its annual customer conference in May, SAP's CEO announced: "We are going to add a green ledger in our ERP so you can account for carbon as you account for financials today." This is one of the most clear statements of the new reality: Emissions data is now reportable data. And it must go through the same rigorous, locked-down processes finance teams use for public financial disclosures.

But finance teams lag far behind: Only 25% use software, and 55% still use spreadsheets and manual data entry to compile emissions data. Every bit of this makes CFOs nervous, given their personal exposure under Sarbanes-Oxley.

With every finance team looking for a better way, here are three key areas to focus on and how to solve the challenge each one presents.

Actual Emissions Data

It's pretty easy to grab some industry average emissions data and apply it to the scope of emissions calculations. This work can be done on spreadsheets and there is a logic to it. But investors are demanding actual data—not back-of-the-envelope estimates—and are quick to point out flaws. Not convinced? Here's a recent headline: "Vanguard sets 'laughable' net-zero pledge."

Actual emissions data starts with primary data sources. For Scope 1 and 2 emissions (at sites), the data are in energy invoices and utility bills. Each document is essentially a miniature data silo, and the data must be unlocked. Often, manual data entry is used, but this introduces errors. It is also expensive, so just a bit of data is captured—not enough to plan emissions reductions. An automated solution that delivers a complete set of actual data from primary sources can help.

Accurate Emissions Data

A recent study by FTSE Russell showed that reported emissions can be off by 50%-200%. Financial analysts are making comparisons across peers and over time, but without solid data, the comparisons are not reliable. Companies that produce accurate data will be able to demonstrate solid progress of reductions over time and clear advantages when compared to peers.

But inaccurate data is more than missed numbers. It also arises in the judgments used to produce a single structured file from an extraordinarily diverse set of input data. Utility jargon is dense, and unless the semantic normalizations across the disparate sources are documented and locked down, errors will be introduced by individual data processors using bespoke judgments.

The solution is automation and testing, every step of the way. One should be able to test whether the data is numerically accurate and the business logic used to compile it is error-free. Automated systems provide the information needed to verify accuracy and build investor confidence.

Audited Emissions Data

Financial data is audited as it is prepared for reporting, and emissions data should be no different. Third-party audits increase investor confidence because the auditors take a close look at how the data was produced. They gain access investors don't have.

A typical audit practice is to randomly sample a number of entries from a pool and examine their accuracy, data lineage and more. The primary source data, the audit trail and the reported data are all needed for every reported number. The auditors will examine the full lineage for a select few.

This level of data preparation is almost impossible without a modern software system. But there's a bit of good news in this imperative.

More than one commentator has noticed that the new climate disclosure regulations are very much like the early days of Sarbanes-Oxley (SOX) compliance, with an urgent need to produce data, no systems in place. And a lesson from 15 years of SOX reporting: Companies that invested in automation have significantly lower compliance costs than those that deferred that investment.

With climate disclosures here to stay — through regulation and high investor demand — automation for reportable emissions data can produce a high ROI and provide the actual, accurate, and audit-ready emissions data investors are demanding.