
TPI Submissions to the Task Force on Climate-Related Financial Disclosures Consultation

10 April 2017

Introduction

In December 2015, the Financial Stability Board (FSB) announced that it would establish an industry led disclosure task force on climate-related financial risks under the chairmanship of Michael R. Bloomberg. The Task Force on Climate-related Financial Disclosures (TCFD) was charged with developing voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders.

In December 2016, the TCFD released its recommendations¹ for public consultation. Amongst other recommendations, it identified four thematic areas that represent core elements of how organizations operate - governance, strategy, risk management, and metrics and targets – and made recommendations and provided guidance on the disclosures that should be provided to help investors and others understand how reporting organizations think about and assess climate-related risks and opportunities. The Task Force also recommended that companies disclose the potential impacts of climate-related risks and opportunities on their businesses, strategies, and financial planning under different potential future states (scenarios), including a 2°Celsius scenario

The Transition Pathway Initiative (TPI) prepared a formal submission to the Task Force, focusing specifically on the question of corporate disclosures, and how these could be made more useful to investors. In this paper, we present the key elements of our submission.

We will continue to follow the Task Force's work and will ensure that the Task Force is aware of the ongoing work of the Transition Pathway Initiative.

¹ [TCFD 2017 report](#)

About the Transition Pathway Initiative

The Transition Pathway Initiative (TPI) is an asset owner-led initiative, which assesses how companies are aligning themselves with the transition to a low-carbon economy. TPI is currently supported by asset owners and managers with over £2 trillion in funds under management.

The TPI aims to define what the transition to a low carbon economy looks like for companies in high impact sectors such as oil and gas, mining, and electricity generation. This will then enable asset owners and other stakeholders to make informed judgements about how companies with the biggest impact on climate change are adapting their business models to prepare for the transition to a low carbon economy.

TPI involves asset owners working together with the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE), supported by data from FTSE Russell, to:

- Evaluate the quality of companies' management of the greenhouse gas emissions associated with their business ('Management Quality').
- Evaluate how companies planned or expected future carbon performance compares to international targets and national pledges made as part of the Paris Agreement ('Carbon Performance').
- Report this information publicly through an online tool hosted by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE).

TPI released its first set of data in January 2017, publishing Management Quality assessments for 20 large companies in the oil and gas sector and for 20 large companies in the electricity utilities sector. By late 2017, TPI expects to have published Management Quality and Carbon Performance data for some 100-150 companies in high impact sectors. In 2018, TPI will extend this work to other sectors.

The Task Force on Climate-Related Financial Disclosures: TPI Perspective

In our submission, we welcomed the Task Force on Climate-related Financial Disclosures report as an important development in ensuring that companies provide information and analysis that is useful for long-term investors concerned about managing climate-related risks in their portfolios. We agreed with the Task Force's Core Elements of Recommended Climate-Related Financial Disclosures (namely governance, strategy, risk management, metrics and targets) and the recommended supporting disclosures. We also welcomed the provision of sector-specific guidance (e.g. for the energy sector) and the emphasis on forward-looking data.

We noted, however, that while the Task Force did suggest a series of indicators and data points that companies might report against, it did not prescribe the indicators that companies should use in their reporting. Nor did it provide a framework against which company performance could be assessed. In our submission, we argued that the Task Force needed to be much more precise in its specification of the information that

companies needed to report and in defining the framework against which company performance should be assessed. We discuss each of these briefly below.

Specific Disclosure

The lack of specificity around the indicators that companies should use in their reporting creates the risk that companies might not provide specific information on the management systems and processes that investors need to inform their investment decisions. We therefore recommended that the Task Force supplement its generic recommendations by encouraging companies to explicitly answer the sort of questions that are of interest to investors. We identified the questions used in the Transition Pathway Initiative – see below – to illustrate what these disclosures might look like.

	Task Force Recommended Disclosures	Q's that Investors want to Answer (from the Transition Pathway Initiative)
Governance	<ul style="list-style-type: none"> Describe the board's oversight of climate-related risks and opportunities. Describe management's role in assessing and managing climate related risks and opportunities. 	<ul style="list-style-type: none"> Does the company have a policy (or equivalent) commitment to action on climate change? Does the company support domestic and international efforts to mitigate climate change? Has the company nominated a board member or board committee with explicit responsibility for oversight of the climate change policy? Has the company incorporated climate change (or environmental, social and governance issues more generally) into executive remuneration?
Metrics and Targets	<ul style="list-style-type: none"> Disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. Describe the targets used by the organization to manage climate related risks and opportunities and performance against targets. 	<ul style="list-style-type: none"> Has the company set energy efficiency or relative or absolute greenhouse gas emission reduction targets? Has the company set quantitative relative or absolute targets for reducing its operational (Scope 1 and 2) greenhouse gas emissions? Has the company set long-term relative or absolute targets for reducing its greenhouse gas emission? Does the company publish information on its Scope 1 and 2 greenhouse gas emissions? Has the company had its operational (or Scope 1 and 2) greenhouse gas emissions data verified? Does the company report on Scope 3 emissions? Has the company reduced its operational (Scope 1 and 2) greenhouse gas emissions over the past 3 years?

We also noted that, notwithstanding the fact that many companies now have long track records of reporting on their carbon performance, these disclosures – even for mature areas such as Scope 1, 2 and 3 emissions – continue to be inconsistent (both within firms and between firms) in terms of their scope and calculation methodologies. We strongly recommended that the Task Force emphasise the importance of ensuring that corporate reporting is consistent, as this would be very useful for those conducting third-party assessments of company performance.

Reference Framework

The absence of guidance on how the performance of companies was to be assessed creates the risk that the Task Force's recommendations will simply be a set of process recommendations that have limited if any effect on corporate performance. We suggested that the Task Force recommend that companies follow the approach being developed by the Transition Pathway Initiative. The TPI is using the International Energy Agency's (IEA's) modelling to develop sector specific benchmark emissions paths. For each major sector, TPI will develop:

- A 2 Degrees scenario, which is consistent with the overall aim of the Paris Agreement to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels".
- A Paris Pledges scenario which assesses alignment with the sum of the emissions reductions pledged by individual countries as part of their Nationally Determined Contributions (or NDCs) to the Paris Agreement.
- A modelling framework that enables companies' future emissions to be assessed against these two scenarios.

In order to conduct this analysis, we noted that companies need to provide information on their current and expected future greenhouse gas emissions. For sectors where the primary emissions of concern are the emissions associated with their operations (in this group we include electricity utilities, iron and steel, aluminium, cement, pulp and paper), we recommended that companies report:

- Their current Scope 1 and 2 emissions.
- Relevant activity data (e.g. the amount of electricity produced, the quantity of product produced).
- Their relative and absolute targets for their future Scope 1 and Scope 2 emissions.
- How they expect their Scope 1 and 2 emissions to change over, at least, the next 10 years. (including explanation of how this relates to their targets, e.g. if they have a relative target, they should explain how this affects absolute emissions).
- How they expect their activity to change over, at least, the next 10 years.

We acknowledged that further work is required to develop similar benchmark emissions paths for the automobile, oil and gas, and mining sectors, although this is a priority area

of work for TPI. While we were not able to offer definitive suggestions on the relevant indicators for these sectors, we noted that:

- For these sectors, the focus should be on the emissions associated with their products (i.e. the emissions from automobiles, the emissions associated with the combustion of fossil fuels) rather than operational emissions.
- Automobile companies should report on total automobile production and the fuel efficiency of the vehicles they produce, both now and in the future.
- Mining and oil and gas companies should report on: (a) current proven and probable reserves, (b) expected annual production of coal, oil and gas (by fuel type) over the next ten years.
- All companies should report on the targets, if any, they have set for the emissions from their products (and/or related targets such as projected production volumes).