

METHODOLOGY AND INDICATORS REPORT

Version 2.0 – May 2018

Simon Dietz, Carlota Garcia-Manas, William Irwin,
Bruno Raus, Rory Sullivan

CONTENTS

1. Introduction	3
1.1. The Transition Pathway Initiative	3
1.2. About this report	3
2. Key concepts and principles	4
2.1. Design principles	4
2.2. Management Quality versus Carbon Performance	5
2.3. The company assessment process and quality assurance	5
3. Management Quality assessment	8
3.1. Background	8
3.2. Management Quality staircase with five levels	8
3.3. Indicators	9
3.4. Mapping to TCFD recommendations	12
3.5. Summary of changes from 2017	12
4. Carbon Performance assessment	14
5. Disclaimer	16
APPENDIX 1. Mapping of TPI's management quality framework to TCFD recommendations.....	17

1. INTRODUCTION

1.1. The Transition Pathway Initiative

The Transition Pathway Initiative (TPI) was established in January 2017. It is a global initiative led by asset owners and supported by asset managers. Collectively these investors represent over £6/\$8 trillion of assets under management. TPI aims to evaluate what the transition to a low-carbon economy looks like for companies with a high impact on climate change, such as electricity utilities and oil and gas producers. It also aims to assess how well-prepared these companies are for the low-carbon transition. Companies are analysed in two ways:

1. *Management Quality*: TPI evaluates and tracks the quality of companies' governance/management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition.
2. *Carbon Performance*: TPI also evaluates how companies' carbon emissions compare with the international targets and national pledges made as part of the UN Paris Agreement. It does this by comparing companies in high-emitting sectors against each other and against sector-specific benchmarks, which establish the performance of an average company that is aligned with international emissions targets.

TPI publishes the results of its analysis through an open online tool hosted by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics (LSE):

<http://www.transitionpathwayinitiative.org>.

TPI encourages investors to use the data, indicators and online tool to inform their investment research, decision making, engagement with companies, proxy voting and dialogue with fund managers and policy makers, bearing in mind the Disclaimer that can be found in Section 5.

1.2. About this report

This is the second edition of TPI's Methodology and Indicators Report. It provides the technical background to TPI's assessments of Management Quality and Carbon Performance, with a particular focus on Management Quality. We also publish occasional Methodology Notes on Carbon Performance, since the details of how to assess Carbon Performance vary between sectors. This report supersedes Version 1.0 of the Methodology and Indicators Report, published in January 2017.

The report describes:

- The key principles underpinning TPI and the TPI company assessment process, including quality assurance provisions and how company feedback is handled (Section 2);
- The Management Quality framework, including the specific indicators used to populate the framework and how companies are placed on the framework's levels (Section 3);
- A broad outline of how TPI assesses Carbon Performance (Section 4).

2. KEY CONCEPTS AND PRINCIPLES

2.1. Design principles

The following high-level principles have guided our approach to designing the TPI methodology:

- Company assessments should be based solely on publicly available information. There are two reasons for this. The first is that encouraging companies to provide a better account of how they manage climate change is a core objective of TPI. The second is to ensure that companies are assessed consistently, thereby avoiding any suggestion that individual companies are in any way favoured by the assessment methodology.
- Indicators should be objectively assessable. That is, the users of TPI data and other stakeholders (including the companies themselves) should be able to understand why a company has met, or not met, a particular Management Quality indicator, and how a company's emissions performance has been quantified.
- Indicators of Management Quality should be relevant to all companies in all sectors covered by TPI. The reason is that investors want to be able to compare sectors and, when communicating with stakeholders, to be able to demonstrate the overall outcomes of their engagement.
- Carbon Performance benchmarks should be sector-specific. The reason is that different sectors of the economy (e.g. oil and gas production, electricity generation and automobile manufacturing) face different challenges arising from the low-carbon transition, including where emissions are concentrated in the value chain, and how costly it is to reduce emissions.
- TPI's outputs should be useful to asset owners as they engage with companies and with asset managers. Of particular importance is ensuring that TPI is relevant and useful to asset owners with relatively little capacity or expertise on climate change.
- Indicators should link to, or build on, existing initiatives and disclosure frameworks (e.g. the FSB Taskforce on Climate-related Financial Disclosures or TCFD) as far as possible. That is, unless there is a compelling reason to do otherwise, the data used by TPI should be those already reported by companies or that are commonly requested by investors.
- Indicators should be pitched at a high level of aggregation and apply to the corporation as a whole. It is acknowledged that investors may wish to dig deeper into specific aspects of practice or performance (e.g. to understand risk and opportunity on a country-by-country basis). For these investors, TPI's data can be used in conjunction with other measures, such as those relating to financial performance (e.g. sales, turnover) and those that provide a more granular assessment of corporate climate action.

2.2. Management Quality versus Carbon Performance

Our assessment of companies' progress on the low-carbon transition is divided into two parts: (1) *Management Quality* and (2) *Carbon Performance*.

Management Quality describes companies' carbon management practices, in other words their governance of greenhouse gas emissions and the risks and opportunities arising from the low-carbon transition. For example, Management Quality indicators include whether a company has a climate-change policy in place, to what extent it discloses its emissions, and whether the company has allocated board responsibility for climate change.

Carbon Performance describes what emissions pathway a company is on and how it compares to the international targets and national pledges made as part of the UN Paris Agreement, for example the aim to limit global warming to 2°C above the pre-industrial level.

One of the reasons why we assess Management Quality and Carbon Performance separately is that research shows the relationship between them is by no means clear cut.[1]–[5] The ideal scenario is that companies with robust, well-developed carbon management systems and processes adopt business strategies that are aligned with the low-carbon transition. Conversely companies with weaknesses in their carbon management systems and processes might be less likely to set challenging emissions targets.

However, at any particular moment one can find examples of companies with good carbon management systems, who nonetheless have high emissions, and *vice versa*. This might be because the highest-emitting companies are forced to place the highest priority on reducing those emissions.

There is some evidence to suggest that, while good carbon management appears unrelated to current emissions, it leads to lower *future* emissions, because companies with good carbon management are more likely to set and deliver on stretching emissions targets.[6] Nonetheless some companies with good carbon management have not set ambitious emissions targets. There are several possible explanations for this. Some are external, such as weaknesses in the signals being sent to business by national/local policy makers. Some are internal, such as management scepticism about the business case for climate action, or limited capacity to make the changes necessary to transition to a low-carbon economy. There are also cases where the converse applies, i.e. companies have set ambitious targets, but lack the knowledge, management systems or capacity to implement them.

Ultimately Management Quality assessment focuses on processes, while Carbon Performance focuses on outcomes. Together they are intended to provide a holistic view of companies' progress on the low-carbon transition.

2.3. The company assessment process and quality assurance

TPI's Management Quality assessments are based on data provided by FTSE Russell, specifically the data and indicators it uses to develop its ESG Ratings.¹ These data go through a four-stage quality assurance process before being provided to TPI:

¹ For further information see <http://www.ftse.com/products/downloads/ESG-ratings-overview.pdf?800>.

1. **Initial assessment and analyst quality control.** A FTSE Russell analyst conducts the initial company assessment, including a review of the previous year's assessment to assess if a change in data from the previous year is justified. This is followed by a second analyst carrying out a check on the company analysis and by a separate, more experienced, analyst reviewing company assessments to ensure accuracy and consistency.
2. **Company review.** FTSE Russell contacts the company, providing it with the opportunity to review the data collected. FTSE Russell's research process only allows publicly available information to be used.
3. **Trend quality control.** Senior FTSE Russell analysts conduct trend analysis to look for inconsistent data and data outliers. They also conduct focused quality control on particular indicators, based on their understanding of indicators that are more vulnerable to errors.
4. **Quality management.** FTSE Russell staff carry out a series of quality-monitoring checks, focusing on both quantitative data consistency (e.g. units, gaps, outliers) and qualitative data (e.g. checking interpretation and criteria guidance). The results of these checks are shared with analysts in order for them to implement changes and enhance their quality control processes.

TPI processes the Management Quality data provided by FTSE Russell according to the methodology set out below and it carries out its own Carbon Performance assessment from beginning to end. Both of these assessments are then subject to TPI's own quality assurance as follows:

- **Initial data collection and review.** An analyst collects Carbon Performance data from company disclosures and conducts a detailed review to confirm that the data are complete and consistent with those collected by FTSE Russell, where the data overlap. Any inconsistencies are discussed with FTSE Russell.
- **Initial findings review.** Following the application of TPI's Management Quality and Carbon Performance methodologies to the data, a different analyst reviews each company's assessment in detail, and we look at overall trends across companies with a view to identifying outliers and unusual patterns.
- **Company review.** Once we have completed the company assessments, we write to each of the companies with its draft TPI assessment (as well as the FTSE Russell data that underpin the Management Quality assessment), requesting that the companies review their assessments and confirm the accuracy of the underlying data.

- **Final assessment.** We review company responses and either amend their assessments, or provide a justification for why the assessment should not change. Further details of our procedures for incorporating company feedback are contained in Box 1.

Box 1. Responding to companies

Allowing companies the opportunity to review and, if necessary, correct their assessments is an integral part of TPI's quality assurance process. We send each company its draft TPI assessment and the data that underpin that assessment, offering companies the opportunity to review and comment.

If a company seeks to challenge its result/representation, our process is as follows:

- We review the information provided by the company (involving FTSE Russell where appropriate). At this point, we may request that the company provides additional information.
- If we conclude that the company's challenge has merit, we (a) update/correct the relevant information and (b) inform the company of the changes that have been made.
- If we conclude that there are insufficient grounds to change our assessment, we explain our decision to the company.
- If a company chooses to further contest the results and reverts to legal means to do so, we will redact the company assessment from the TPI online tool and associated publications and will list the company as having challenged its assessment.

3. MANAGEMENT QUALITY ASSESSMENT

3.1. Background

TPI's Management Quality methodology has been developed through an iterative process of research, testing and review. The main elements of this work have been:

- **Literature Review.** It has been desirable to align our work with other existing initiatives and disclosure frameworks, including the indicators requested by CDP, the Climate Disclosure Standards Board and the Global Reporting Initiative, and the recommendations of TCFD. We have also drawn inspiration from the manner in which investors articulate their expectations of companies on other sustainability-related issues, such as the Access to Medicines Index, the Access to Nutrition Index and the Business Benchmark on Farm Animal Welfare.
- **Testing the Indicators.** Both TPI's original Management Quality framework and this 2018 revision have been extensively piloted on samples of FTSE Russell data. For the 2018 revision, we tested various permutations of the framework on a sample of 38 companies, most of which had been assessed by TPI, under version one of the Management Quality framework, in 2017. When conducting these tests, we sought to answer a number of different questions, such as: are the necessary data available to generate the indicators and, if not, are there alternative data that could provide the same insights? Do the indicators and the framework generate meaningful results, for example do they effectively differentiate between companies? How do the results compare with other measures of corporate climate-change performance (e.g. from CDP)? Can the indicators be assessed objectively and consistently? Are the results sensitive to the inclusion/exclusion of specific questions?
- **Peer Review.** Drafts of the framework have been shared with TPI's Technical Advisory Group and with its Steering Group for comment. The first draft reviewed 2017 experience and provided a menu of options for revising the framework. The second draft focused on a single proposed framework and posed a series of specific questions to members of the Groups about, for example, how stringent certain indicators should be and where they should sit in the framework.

3.2. Management Quality staircase with five levels

Companies tend to implement their carbon management systems and processes in a relatively staged and structured manner. They often start by publicly acknowledging the relevance of climate change to their business and developing a high-level policy or statement. They then tend to set some relatively short-term, process-oriented targets, before progressively extending the duration and stringency of their targets, and defining these in a more precise, quantitative way. A similar phenomenon is often seen in reporting: companies tend to start by reporting on the operational (or Scope 1 and 2) carbon emissions from part of their business, and then progressively extend this reporting to apply to more of the business and, in time, to cover some of

the emissions from their supply chains and from the use of their products (Scope 3 emissions).

Accordingly, TPI's Management Quality framework tracks the progress of companies through the following five levels:

- **Level 0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue.**
- **Level 1 – Acknowledging Climate Change as a Business Issue:** the company acknowledges that climate change presents business risks and/or opportunities, and that the company has a responsibility to manage its greenhouse gas emissions. This is often the point where companies adopt a climate change policy.
- **Level 2 – Building Capacity:** the company develops its basic capacity, its management systems and processes, and starts to report on practice and performance.
- **Level 3 – Integrating into Operational Decision-Making:** the company improves its operational practices, assigns senior management or board responsibility for climate change and provides comprehensive disclosures on its carbon practices and performance.
- **Level 4 – Strategic Assessment:** the company develops a more strategic and holistic understanding of risks and opportunities related to the low-carbon transition and integrates this into its business strategy and capital expenditure decisions.

Some companies are still at an early stage of establishing carbon management and reporting processes, whereas others have assessed the resilience of their businesses and business models to a range of future low-carbon scenarios, published details of their low-carbon research and development (R&D) and investment strategies, and aligned their strategic key performance indicators (KPIs) on climate change with their executive incentives.

Up to 17 specific Management Quality indicators/questions are used to map companies on to these five levels. These are set out in detail below. The data underpinning the indicators are provided by FTSE Russell.

With the exception of Level 0, companies need to be assessed as Yes on all of the questions pertaining to a level, before they can advance to the next level. We also recognise companies that meet all the TPI indicators – i.e. that return a perfect Management Quality score – as *'Four star'* companies.

Companies can move in both directions on the Management Quality staircase and movement can come about either because companies' management practices change, or because the set of indicators used to sort companies on to different levels evolves.

3.3. Indicators

Table 1 lists the 2018 TPI Management Quality indicators and provides explanatory notes.

Table 1 TPI Management Quality framework, including indicators

Level 0: Unaware of (or not Acknowledging) Climate Change as a Business Issue	
Question 1	Does the company acknowledge climate change as a significant issue for the business? [If the company does not acknowledge climate change as a significant issue for the business, it is placed on Level 0]
Notes	Companies are assessed as Yes if they: <ul style="list-style-type: none"> • Explicitly recognise climate change as a relevant risk and/or opportunity for the business (Q2); or • Have a policy or an equivalent statement committing them to take action on climate change (Q3); or • Have set greenhouse gas emission reduction targets (Q4); or • Have published information on their operational greenhouse gas emissions (Q5).
Level 1: Acknowledging Climate Change as a Business Issue	
Question 2	Does the company explicitly recognise climate change as a relevant risk and/or opportunity for the business?
Notes	Companies are assessed as Yes if they demonstrate recognition of climate change as a relevant risk and/or opportunity to the business.
Question 3	Does the company have a policy (or equivalent) commitment to action on climate change?
Notes	Companies are assessed as Yes if they have a published policy or commitment statement on climate change that commits them to addressing the issue, or to reducing or avoiding their impact on climate change (e.g. to reduce emissions or improve their energy efficiency).
Level 2: Building Capacity	
Question 4	Has the company set greenhouse gas emission reduction targets?
Notes	Companies are assessed as Yes if they have greenhouse gas emissions reduction targets. These targets may cover Scopes 1, 2 and/or 3, and they may be quantified or unquantified. This question is less demanding than Questions 7 and 13, which require companies to have set quantified targets and for those quantified targets to be long-term, respectively. Companies that are assessed as Yes on Question 7, or Yes on Questions 7 and 13, are automatically assessed as Yes on Question 4.
Question 5	Has the company published information on its operational (Scope 1 and 2) greenhouse gas emissions?
Notes	Companies are assessed as Yes if they report on their Scope 1 and 2, or their Scope 1, 2 and 3 emissions. Companies that only report Scope 1 emissions are assessed as No.
Level 3: Integrating into Operational Decision-Making	
Question 6	Has the company nominated a board member or board committee with explicit responsibility for oversight of the climate change policy?
Notes	Companies are assessed as Yes if they provide evidence of clear board or board committee oversight of climate change, or if they have a named individual/position responsible for climate change at board level.
Question 7	Has the company set quantitative targets for reducing its greenhouse gas emissions?

Notes	<p>Companies are assessed as Yes if they have set quantified targets to reduce greenhouse emissions in relative or absolute terms (Scopes 1, 2 and/or 3).</p> <p>This question is more demanding than Question 4, as companies must have set quantitative targets to reduce emissions. This question differs from Question 13, which asks whether companies have set quantified targets for reducing greenhouse gases over the long term (i.e. targets that are more than 5 years in duration). Companies that are assessed as Yes on Question 13 are automatically assessed as Yes on this question.</p>
Question 8	Does the company report on Scope 3 emissions?
Notes	Companies are assessed as Yes if they report on Scope 3 emissions separately, either in total or in one or more categories, or if they provide a total for Scope 1, 2 and 3 emissions.
Question 9	Has the company had its operational (Scope 1 and/or 2) greenhouse gas emissions data verified?
Notes	Companies are assessed as Yes if their operational greenhouse gas emissions have been independently verified by a third party, or if they state the international assurance standard they have used and the level of assurance.
Question 10	Does the company support domestic and international efforts to mitigate climate change?
Notes	Companies are assessed as Yes if they demonstrate support for mitigating climate change through membership of business associations that are supportive, and if they have a clear company position on public policy and regulation.
Question 11	Does the company have a process to manage climate-related risks?
Notes	Companies are assessed as Yes if they have integrated climate change into multi-disciplinary company-wide risk management, or if they have a specific climate-related risk management process.
Question 12 (applicable to some sectors only)	Does the company disclose materially important Scope 3 emissions?
Notes	<p>Scope 3 emissions are diverse and many companies only disclose in a sub-set of categories. In some sectors, particular categories of Scope 3 emissions are materially important, in the sense of being a large share of lifecycle emissions. In these sectors, we require companies to specifically disclose emissions in the relevant category or categories.</p> <p>For example, in automobile manufacturing, coal mining, and oil and gas production, we ask: does the company disclose Scope 3 emissions from use of sold products?</p>
Level 4: Strategic Assessment	
Question 13	Has the company set long-term quantitative targets for reducing its greenhouse gas emissions?
Notes	<p>Companies are assessed as Yes if they have set quantified, long-term targets (i.e. more than 5 Years in duration) to reduce greenhouse emissions in relative or absolute terms (Scopes 1, 2 and/or 3).</p> <p>This question is more demanding than Question 7, as the targets must not only be quantitative, they must also be long-term.</p>
Question 14	Has the company incorporated environmental, social and governance issues into executive remuneration?
Notes	Companies are assessed as Yes if executive remuneration incorporates environmental, social and governance performance.

Question 15	Does the company incorporate climate change risks and opportunities in their strategy?
Notes	Companies are assessed as Yes if they detail how they incorporate climate change risks and opportunities in their strategy (mitigation, new products, R&D, etc.), and if they disclose the impact of climate change risks and opportunities on financial planning (OPEX, CAPEX, M&A, debt).
Question 16	Does the company undertake climate scenario planning?
Notes	Companies are assessed as Yes if they mention the 2 degrees scenario in relation to business planning or confirm they have conducted climate related scenario analysis, and if they describe the business impact of one or more climate scenario analysis.
Question 17	Does the company disclose an internal price of carbon?
Notes	Companies are assessed as Yes if they have and disclose their internal carbon price.

3.4. Mapping to TCFD recommendations

TCFD has made recommendations on company disclosures on climate change in four areas:

1. **Governance**; companies' governance around climate-related risks and opportunities.
2. **Strategy**; the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
3. **Risk management**; the processes used by the organization to identify, assess, and manage climate-related risks.
4. **Metrics and targets**; the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Appendix 1 shows how TPI's indicators map on to the TCFD framework.

3.5. Summary of changes from 2017

We have **added 5 new questions**. They are:

- Does the company have a process to manage climate-related risks? (Level 3)
- Does the company disclose materially important Scope 3 emissions? (Level 3)
- Does the company incorporate climate change risks and opportunities in their strategy? (Level 4)
- Does the company undertake climate scenario planning? (Level 4)
- Does the company have an internal price of carbon? (Level 4)

Together these new questions achieve alignment with the TCFD recommendations (see above), by ensuring the 'strategy' and 'risk management' domains of the TCFD framework are covered, in addition to the 'governance' and 'metrics and targets' domains, which were already well covered by the 2017 Management Quality framework.

The new question on materially important Scope 3 emissions is intended to enable TPI to better differentiate companies in terms of the comprehensiveness and quality of their Scope 3 disclosures, where these command a large share of companies' lifecycle greenhouse gas emissions.

We have **deleted 2 questions** from the 2017 framework. They are:

- Has the company reduced its total Scope 1 and 2 greenhouse gas emissions over the past 3 years? (Level 4) This question was felt to blur the boundary between Management Quality and Carbon Performance. In addition, three years is a relatively short period over which to measure emissions trends and short-term factors, possibly beyond a company's control, can thus play a dominant role. Lastly, some felt it to be a disadvantage that, by focusing on absolute/aggregate emissions, companies could fail to satisfy this criterion despite having cut their emissions *intensity* (i.e. if their business has grown sufficiently fast over the 3 years assessed). Conversely some companies could satisfy this criterion without having reduced their emissions intensity (i.e. if their business shrinks).
- Does the company provide information on business costs associated with climate change? (Level 4) It was felt that this issue can be satisfactorily addressed through some of the new questions outlined above, particular Questions 15 and 17. Moreover a weakness of this question was that it could include company disclosures of costs associated with the physical impacts of climate change, whereas the TPI framework currently relates specifically to transition risk and the costs associated with it. So a company could satisfy this criterion without in fact disclosing any business costs associated with decarbonising.

Two minor modifications have also been made to existing questions:

- Question 2 has changed from "Does the company explicitly recognise climate change as a significant issue for the business?" to "Does the company explicitly recognise climate change as a relevant risk and/or opportunity for the business?", reflecting a change in how FTSE Russell captures the underlying data, intended to bring the framework more closely aligned with TCFD.
- Questions 4 now relates to greenhouse gas emissions reductions specifically (rather than emissions and/or energy use) and Questions 7 and 13 now relate to emissions reductions across Scopes 1, 2 and/or 3, again reflecting changes in how FTSE Russell captures the underlying data.

We tested whether Questions 7 and 13 could be bolstered with a requirement that companies' targets cover a minimum share of emissions (e.g. at least 50% of operational emissions). However, piloting the framework revealed that data on target coverage are not widely available. In addition, further analysis of companies who do not explicitly disclose their target coverage suggested that some of these companies have targets with comprehensive coverage. In other words, it is not only companies with targets that have limited coverage who do not disclose that coverage. Therefore we decided not to introduce this requirement for the moment.

4. CARBON PERFORMANCE ASSESSMENT

TPI's Carbon Performance assessment is based on the Sectoral Decarbonization Approach (SDA).[7] The SDA translates greenhouse gas emissions targets made at the international level (e.g. under the Paris Agreement to the UN Framework Convention on Climate Change) into appropriate benchmarks, against which the performance of individual companies can be compared.

The SDA is built on the principle of recognising that different sectors of the economy (e.g. oil and gas production, electricity generation and automobile manufacturing) face different challenges arising from the low-carbon transition, including where emissions are concentrated in the value chain, and how costly it is to reduce emissions. Other approaches to translating international emissions targets into company benchmarks have applied the same decarbonization pathway to all sectors, regardless of these differences.[8]

Therefore the SDA takes a sector-by-sector approach, comparing companies within each sector against each other and against sector-specific benchmarks, which establish the performance of an average company that is aligned with international emissions targets.

Applying the SDA can be broken down into the following steps:

- A global carbon budget is established, which is consistent with international emissions targets, for example keeping global warming below 2°C. To do this rigorously, some input from a climate model is required.
- The global carbon budget is allocated across time and to different regions and industrial sectors. This typically requires an integrated economy-energy model, and these models usually allocate emissions reductions by region and by sector according to where it is cheapest to reduce emissions and when (i.e. the allocation is cost-effective). Cost-effectiveness is, however, subject to some constraints, such as political and public preferences, and the availability of capital. This step is therefore driven primarily by economic and engineering considerations, but with some awareness of political and social factors.
- In order to compare companies of different sizes, sectoral emissions are normalised by a relevant measure of sectoral activity (e.g. physical production, economic activity). This results in a benchmark path for emissions intensity in each sector:

$$\text{Emissions intensity} = \frac{\text{Emissions}}{\text{Activity}}$$

Assumptions about sectoral activity need to be consistent with the emissions modelled and therefore should be taken from the same economy-energy modelling, where possible.

- Companies' recent and current emissions intensity is calculated and their future emissions intensity can be estimated based on emissions targets they have set (i.e. this assumes companies exactly meet their

targets).² Together these establish emissions intensity paths for companies.

- Companies' emissions intensity paths are compared with each other and with the relevant sectoral benchmark pathway.

TPI uses the following sectoral benchmark pathways/scenarios:

1. 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", albeit at the low end of the range of ambition.[10]
2. A **Paris Pledges** scenario, which is consistent with the global aggregate of emissions reductions pledged by countries as part of the Paris Agreement in the form of Nationally Determined Contributions or NDCs. Several studies have documented that this aggregate is currently insufficient to put the world on a path to limit warming to 2°C, even if it will constitute a departure from a business-as-usual trend.[11]–[13]
3. From summer 2018, TPI will introduce a third **Well Below 2 Degrees** scenario, which is consistent with the higher level of ambition in the overall aim of the Paris Agreement.

The usual source of data for these scenarios is the modelling of the International Energy Agency (IEA), via its biennial *Energy Technology Perspectives* report.[9] However, for some sectors it is necessary to draw upon other modelling. For example, TPI has used the modelling of the International Council on Clean Transportation (ICCT) in the automobile manufacturing sector.

In line with TPI's philosophy, companies' emissions intensity paths are derived from public disclosures (including responses to the annual CDP questionnaire, as well as companies' own reports, e.g. sustainability reports) as far as possible. In particular, only company disclosures are used to estimate recent and current emissions intensity, and company disclosures are also the source of information on targets for future emissions.

Further details of how the Carbon Performance methodology is applied in specific sectors can be found in TPI's occasional Methodology Notes.

² Alternatively, future emissions intensity could be calculated based on other data provided by companies on their business strategy and capital expenditure plans.

5. DISCLAIMER

1. All information contained in this report and on the TPI website is derived from publicly available sources and is for general information use only. Information can change without notice and The Transition Pathway Initiative does not guarantee the accuracy of information in this report or on the TPI website, including information provided by third parties, at any particular time.
2. Neither this report nor the TPI website provides investment advice and nothing in the report or on the site should be construed as being personalised investment advice for your particular circumstances. Neither this report nor the TPI website takes account of individual investment objectives or the financial position or specific needs of individual users. You must not rely on this report or the TPI website to make a financial or investment decision. Before making any financial or investment decisions, we recommend you consult a financial planner to take into account your personal investment objectives, financial situation and individual needs.
3. This report and the TPI website contain information derived from publicly available third party websites. It is the responsibility of these respective third parties to ensure this information is reliable and accurate. The Transition Pathway Initiative does not warrant or represent that the data or other information provided in this report or on the TPI website is accurate, complete or up-to-date, and make no warranties and representations as to the quality or availability of this data or other information.
4. The Transition Pathway Initiative is not obliged to update or keep up-to-date the information that is made available in this report or on its website.
5. If you are a company referenced in this report or on the TPI website and would like further information about the methodology used in our publications, or have any concerns about published information, then please [contact us](#). An overview of the [methodology](#) used is available on our [website](#).
6. Please read the [Terms and Conditions](#) which apply to use of the website.

APPENDIX 1. MAPPING OF TPI'S MANAGEMENT QUALITY FRAMEWORK TO TCFD RECOMMENDATIONS

Governance	Strategy	Risk management	Metrics and targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended disclosures			
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
TPI indicators			
Q1, Q2, Q3, Q6, Q14	Q10, Q11, Q15, Q16, Q17	Q11, Q15	Q4, Q5, Q7, Q8, Q9, Q12, Q13