

## TPI Position Paper on the efforts towards Comprehensive Corporate Reporting by CDP, CDSB, GRI, IIRC and SASB

### About TPI

The Transition Pathway Initiative (TPI) is a global initiative led by Asset Owners and supported by Asset Managers. Established in January 2017, TPI now has 87 supporters with over \$22.5 trillion of combined Assets Under Management and Advice.

Using publicly disclosed data, TPI assesses the progress that companies are making on the transition to a low-carbon economy, supporting efforts to mitigate climate change. The TPI is in line with the recommendations of TCFD and provides data for the Climate Action 100+ initiative.

All TPI data are published via an open-access online tool: [www.transitionpathwayinitiative.org](http://www.transitionpathwayinitiative.org)

## THE LANDSCAPE OF CLIMATE CHANGE REPORTING

### The case for reporting is clear

1. The economic, environmental and societal impacts of climate change and, more recently, of the coronavirus pandemic have brought renewed focus on companies' sustainability and financial performance. Investors and other stakeholders are increasingly interested in how companies are managing their sustainability performance and impacts and are demanding ever more detailed disclosures on this. The pivot towards increased disclosure has been accelerated by regulatory proposals such as the EU taxonomy on sustainable finance and by the efforts of investors (individually and collectively, including through IIGCC, CA100+ and the UN-convened Net-Zero Asset Owner Alliance), by non-governmental organisations and by organisation such as CDP and SASB. Reporting, in particular by larger companies, on sustainability performance in general, and climate change in particular, is now seen as standard practice.

## **But current disclosures do not meet investors' needs**

2. While many companies now provide a significant volume of information on their climate change performance, this information is often of limited value to investors. Common criticisms are that it is incomplete and inconsistent, that it does not meet the specific information needs of investors, and that it does not properly link to corporate strategy or capital investment decisions. There is clearly a need for some level of consolidation of reporting expectations to meet the needs of investors. Investors recognise that, a well-managed consolidation process could help to simplify reporting, reduce duplication of efforts, and reduce transaction costs, all of which would be of benefit to companies and their investors.

## **THE PROPOSED MOVE TOWARDS COMPREHENSIVE CORPORATE REPORTING**

### **We support efforts to consolidate and streamline climate reporting requirements**

3. We recognise and support the initiative being led by CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) to move towards comprehensive corporate reporting. We also support much of the analysis set out in these organisations' Statement of Intent to Work Together Towards Comprehensive Corporate Reporting.

### **We have some specific suggestions on the content of a comprehensive corporate reporting framework**

4. We recognise that this work is at an early stage, and that a significant amount of work is yet to be conducted before such a framework can be finalised. We would therefore like to offer several suggestions for consideration as this work is taken forwards:
  - 4a. The proposed framework must, as a minimum, include the data that are currently required by investors. We highlight in particular:
    - The TPI Management Quality indicators (see Attachment 1).
    - The specific disclosures required by TPI to assess carbon performance in high impact sectors (see Attachment 2).
    - The disclosures required by the Climate Action 100 (CA100+) initiative (see Attachment 3).
  - 4b. The proposed framework must be dynamic and capable of rapidly evolving as new disclosure expectations emerge. We note that, over the next 12-18 months, the following investor initiatives will be developing proposals setting new disclosure expectations for companies:

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- The AP7, BNP Paribas Asset Management and Church of England Pensions Board project to develop core indicators on responsible corporate climate change lobbying.
- The ongoing work by IIGCC and other investor networks on climate change adaptation.
- The planned evolution of TPI which will include:
  1. The updating of the TPI Management Quality Framework.
  2. The expansion of TPI to asset classes other than listed equities.
  3. The development of climate change disclosure standards in the banking sector.
- The ongoing evolution of the CA100+ Net Zero Company Benchmark, which is likely to see the addition of indicators on the Just Transition.
- The IIGCC Paris-Aligned Investing Initiative.

**We also have some general reflections on the design of a comprehensive corporate reporting framework.**

5. The framework should differentiate between the minimum reporting expectations that should be expected of all companies, and the additional expectations that might be expected of companies by virtue of their activities, their sectors, their economic or political importance. While it may be feasible to develop a floor or a minimum set of generally applicable expectations, we do not think we are at a point where limits can be set on the disclosure that need to be provided.
6. The framework should not rely on materiality as the sole or primary criterion for deciding whether or not companies should report. While the language of financial materiality has been useful in terms of legitimising climate change as a matter for investor attention, it is a framing that can downplay or underemphasise important aspects of corporate performance, in particular those where the impacts or the costs are not borne by the company itself. It can also mean that issues that are seen as important by stakeholders, in particular those stakeholders who are not recognised as important by the company, are downplayed or ignored.
7. The framework must align with changes in regulation and policy. While the Statement of Intent correctly acknowledges the leadership being shown by the European Commission, this is not just a European phenomenon. Other countries and multilateral organisations are developing their reporting frameworks and taxonomies, and these may well diverge from the European proposals. We also note that bodies such as TCFD and IFRS are developing proposals on carbon reporting/disclosure. Given the standard-setting role of these organisations, it is important that the proposed framework aligns with the efforts of these and other credible organisations active on climate change reporting and related issues.

8. The framework must recognise that disclosures must support decision-making; that is, the decisions that need to be made by investors should drive the data and information that are to be reported. In certain areas, we have reached a point where there is consensus around the specific data/indicators that must be reported. In others, we have reached a point where the question we need to answer is clear, but the indicators required to assess company performance are not yet clear and/or the question could be answered in different ways and with different data. The frameworks – which are a mix of hard indicators and of specific questions that investors need to answer - presented in Attachments 1-3 illustrate the multiple needs of the investment community.

#### **INVESTORS ARE JUST ONE STAKEHOLDER**

9. Finally, we wish to stress that we are making this submission on behalf of institutional investors and not on behalf of other stakeholders such as regulators or non-governmental organisations. We note, however, that climate change-related disclosures are important to many different stakeholders, and any efforts to develop a Comprehensive Corporate Reporting Framework must provide these other stakeholders with the information they need to inform their decision-making. Investors are an important stakeholder, but we are just one of many voices in this debate.

## ATTACHMENT 1: TPI MANAGEMENT QUALITY FRAMEWORK

<b>Level 0: Unaware of (or not Acknowledging) Climate Change as a Business Issue</b>	
<b>Question 1</b>	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"> <li>• Recognise climate change as a relevant risk and/or opportunity for the business (Q2); or</li> <li>• Have a policy or an equivalent statement committing them to take action on climate change (Q3); or</li> <li>• Have set greenhouse gas emission reduction targets (Q4); or</li> <li>• Have published information on their operational greenhouse gas emissions (Q5).</li> </ul>
<b>Level 1: Acknowledging Climate Change as a Business Issue</b>	
<b>Question 2</b>	Does the company 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, or if they have incorporated at least two of the following, more advanced management practices, namely they: <ul style="list-style-type: none"> <li>• Have a process to manage climate-related risks (Q12);</li> <li>• Have set long-term quantitative targets for reducing their greenhouse gas emissions (Q14);</li> <li>• Incorporate climate change performance into remuneration for senior executives (Q15);</li> <li>• Incorporate climate change risks and opportunities in their strategy (Q16);</li> <li>• Undertake climate scenario planning (Q17);</li> <li>• Disclose an internal price of carbon (Q18);</li> <li>• Ensure consistency between their climate change policies and the positions taken by trade associations of which they are members (Q19).</li> </ul>
<b>Question 3</b>	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).
<b>Level 2: Building Capacity</b>	
<b>Question 4</b>	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.
<b>Question 5</b>	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.
<b>Level 3: Integrating into Operational Decision-Making</b>	
<b>Question 6</b>	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.
<b>Question 7</b>	Has the company set quantitative targets for reducing its greenhouse gas emissions?
Notes	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). 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.
<b>Question 8</b>	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.
<b>Question 9</b>	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.
<b>Question 10</b>	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.
<b>Question 11</b>	Does the company disclose its membership and involvement in trade associations engaged in climate issues?

Notes	Companies are assessed as Yes if they have disclosed their memberships of trade associations that engage on climate-related issues, and if they have disclosed their involvement in these trade associations.
<b>Question 12</b>	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.
<b>Question 13 (applicable to some sectors only)</b>	Does the company disclose materially important Scope 3 emissions?
Notes	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. 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?
<b>Level 4: Strategic Assessment</b>	
<b>Question 14</b>	Has the company set long-term quantitative targets for reducing its greenhouse gas emissions?
Notes	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). This question is more demanding than Question 7, as the targets must not only be quantitative, they must also be long-term.
<b>Question 15</b>	Does the company's remuneration for senior executives incorporate climate change performance?
Notes	Companies are assessed as Yes if executive remuneration incorporates climate change performance.
<b>Question 16</b>	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).
<b>Question 17</b>	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.
<b>Question 18</b>	Does the company disclose an internal price of carbon?
Notes	Companies are assessed as Yes if they have and disclose their internal carbon price.

<b>Question 19</b>	Does the company ensure consistency between its climate change policy and the positions taken by trade associations of which it is a member?
Notes	Companies are assessed as Yes if they have a stated policy or commitment to ensure consistency between their climate change policy and the position taken by the trade associations of which they are members, and for responding appropriately in those instances where the trade association positions is significantly weaker than or contradicts that of the company.



## **ATTACHMENT 2: TPI CARBON PERFORMANCE**

TPI's Carbon Performance benchmarking is sector-specific. It requires information on emissions, on business activities, on levels of activity and on objectives and targets (or other forward-looking data), and based on emissions intensity. TPI has developed benchmarking methodologies and frameworks for a variety of sectors. Here we summarise the data/indicators needed for the oil and gas, electricity and mining sectors to illustrate the variety of data needed to assess each of these sectors.

### **Oil and Gas**

- Scope 1 and 2 emissions (by GHG type, activity, business unit type if available)
- Production data (by fuel type, by business unit)
- Sales data of all externally energy sold (by fuel type,)
- Traded product volumes and types (by fuel type)
- Marketed product (by fuel type)
- Emissions targets (including details of the calculation methodology, base year etc.)

### **Electricity**

- Scope 1 Emissions
- Scope 1 Emissions from electricity generation
- Scope 2 Emissions
- Scope 2 Emissions from purchased electricity
- Own gross generation (by generation type if available)
- Own net generation (by generation type if available)
- Purchased electricity (by generation type if available)
- Emissions targets (including details of the calculation methodology, base year etc.)
- Electricity-specific targets
- Own and purchased electricity targets

### **Mining**

- Scope 1 emissions (by products/region and/or facility if available)
- Scope 2 emissions (by products/region and/or facility if available)
- Flaring, venting and methane emissions if applicable
- Scope 3 emissions by category (mostly interested in cat 10 and 11)
- Purchased offsets or own CCS incorporated in the emissions figures
- Energy products production data by type
- Energy products sales data by type
- Mining products production by type

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- Mining products sales by type
- Average realised sales prices by product (to estimate copper eq.)
- Companywide targets
- Business unit targets
- Methane targets
- Target base year emissions, production, sales, average realised prices
- Production based targets
- Sales based targets

## **ATTACHMENT 3: CLIMATE ACTION 100+ NET ZERO COMPANY BENCHMARK QUESTIONS (PROVISIONAL)**

### **Ambition**

- Has the company has set an ambition to achieve net-zero GHG emissions by 2050 or sooner?

### **Alignment**

- Has the company set short, medium and long-term target for reducing its GHG emissions?
- Do these targets cover at least 95% of Scope 1 & 2 emissions and most relevant Scope 3 emissions (where applicable)?
- Are these targets aligned with the goal of limiting warming to 1.5°C?
- Is the company's decarbonisation strategy aligned with its long, medium and short term GHG reduction targets?
- Is the company working to decarbonise its future capital expenditures?

### **Climate policy engagement**

- Does the company have a Paris-Agreement-aligned climate lobbying position and are all of its direct lobbying activities are aligned with this?
- Does the company have Paris-Agreement-aligned lobbying expectations for its trade associations?
- Does the company disclose its trade association memberships?
- Does the company have a process to ensure its trade associations lobby in accordance with the Paris Agreement?

### **Climate Governance**

- Does the company's board oversee climate change?
- Does the company's executive remuneration scheme incorporate climate change performance elements?
- Does the board have sufficient capabilities/competencies to assess and manage climate related risks and opportunities?

### **TCFD Disclosure**

- Has the company committed to implement the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)?