

Transition Pathway Initiative Response to the TCFD Forward-Looking Financial Sector Metrics Consultation: October 2020

Dear Sir/Madam

We are responding to your Forward-Looking Financial Sector Metrics Consultation (October 2020). We have responded to the online consultation but the framing of the consultation questions did not allow us to make all of the points that we wished to make.

By way of background, the Transition Pathway Initiative has been a long-standing supporter of TCFD and of initiatives that support TCFD (e.g. Climate Action 100+). We recognise the important role that TCFD has played in framing and driving corporate and investor climate

change disclosures and in putting climate change on the agenda for company and investor leadership teams. We also see that TCFD has now achieved the status of a *de facto* standard-setting body on climate-related disclosures; that is, if TCFD recommends disclosure of an indicator or other information, that recommendation is treated in a similar manner to a disclosure request from a regulatory agency.

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 93 supporters with over \$23 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

1. Intermediate Temperature Rise Metrics

It is in the context of TCFD as a *de facto* standard-setter that **we formally request that the TCFD withdraw its proposals on intermediate temperature rise (ITR) metrics/reporting for asset owners and asset managers**. We believe that TCFD's endorsement of such metrics will create pressure on **Transition Pathway Initiative** | transitionpathwayinitiative.org | Twitter: @tp_initiative

investors to invest time and effort in providing such disclosures. There are three reasons why we are making this request:

1. There is no clear case presented in the paper for providing such disclosures: In the consultation paper, TCFD identifies a number of potential benefits associated with ITR data (e.g. that it could represent a proxy for climate-related transition risks or opportunities associated with a selected portfolio, fund, or investment strategy, that it could help inform investment strategies and portfolio allocation, that it could provide insight into progress against strategic objectives or targets). None are unique to ITR and all could, with equal validity, be applied to any other portfolio climate change-related disclosures. We also note that the framing of these as potential benefits suggests that there is uncertainty about whether any of these benefits will actually be realised in any particular context.
2. ITR is too immature to be used as a metric or for TCFD to consider it as a potential metric: This argument is clearly made by TCFD in the consultation paper. Under current challenges, TCFD notes that the calculation, disclosure, and use of ITR are currently subject to several significant challenges, including immature methodologies, variations in approaches and outcomes, and coverage limitations.
3. ITR fails most of the tests of a good metric. We note, in particular:
 - The lack of reliable emissions data: Given that ITR calculations rely heavily on current and future greenhouse gas emissions data (and the attendant challenges with these data), by definition ITR is a significantly less reliable metric.
 - Lack of transparency and comparability: There is little transparency from methodology/data providers on how ITR is calculated or how calculated ITRs compare to each other. Even where methodologies are publicly described, differences between data providers make calculated ITRs difficult to compare.
 - Reliance on assumptions and future uncertainty: ITR calculations essentially involve adding layers of calculations and assumptions onto the uncertainties inherent in any forward-looking calculations and the assumptions required to fill other data gaps (e.g. in the emissions data used to calculate ITRs).
 - Complexity of Calculation: Investors need to rely on one or more external data and methodology providers to complete ITR calculations.

2. Forward-looking Disclosures by Companies

We support TCFD's efforts to encourage additional forward-looking disclosures by companies.

Rather than searching for new metrics, we recommend that TCFD focuses its attention on those metrics that are already being widely used in the investment community for engagement and for investment analysis. In particular we point to:

- The Climate Action 100+ indicators (see <https://www.climateaction100.org/wp-content/uploads/2020/12/Net-Zero-Benchmark-Indicators-12.15.20.pdf>).
- The data used by the Transition Pathway Initiative to assess current and future company carbon performance. In Appendix 1, we present the data/indicators used by TPI to assess company carbon performance. We note that other initiatives, e.g. Science-based Targets Initiative, Carbon Tracker, despite having somewhat different methodologies, require broadly similar input data.

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Beyond the question of forward-looking metrics, we would also encourage TCFD to lend it support to efforts to ensure that credible data on climate transition are made freely available to all investors and other stakeholders. The core principles are that these data are:

- Publicly available for every investor to use (i.e. not hidden behind paywalls).
- Credible and academically rigorous.
- Decision-useful.
- Easy to understand.
- Derived from transparent and robust methodologies, where these methodologies are freely available.

We would be very happy to discuss this letter in more detail.

Best wishes



Faith Ward

Adam Matthews

Co-Chairs, Transition Pathway Initiative

ATTACHMENT 1: 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
- 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