Factsheet

October 2021

Climate Governance Score and Tool

Why has it been created?

The global economy needs to undergo an industrial transition to rapidly decarbonise, with significant implications for business and the investment community. The finance and investment sectors are increasingly re-allocating capital to reflect this; moving capital away from companies with potentially unaddressed climate risks and towards those with clear transition plans.

Many investors are also making commitments to align their portfolios with net-zero. They do this using a wide variety of climate and ESG data, indexes, and ratings providers that collect publicly disclosed company information.

It is therefore vital that companies effectively disclose and communicate their approach to climate change, their strategies, and how they are managing associated risks and opportunities.

Every company will face risks and opportunities related to climate change to some degree. They are also responsible for greenhouse gas emissions, whether directly in their operations, or indirectly from the energy they purchase or from the emissions produced in their supply chain. As the costs associated with emissions rise, the greater the emissions from a company and its supply chain, then the greater the potential costs it must bear. Companies are increasingly aware that investors, regulators, clients, and employees are all requiring them to decarbonise their businesses and be transparent in the climate-related data they provide.

What is the Climate Governance Score?

The London Stock Exchange's Climate Governance Score is an assessment of companies' carbon management practices and incorporation of climate change considerations into business strategies.

It is also a practical measure of how far a company has progressed towards the core elements of climate reporting defined by the Task Force on Climate-Related Disclosures. Since January 2021, the FCA has required all premium listed companies to report on their climate performance against TCFD recommendations. Earlier in 2021, it consulted on expanding the requirements to all standard listed companies. (*see Governance section for more detail*)

The Climate Governance Score is an educational resource to help companies assess their performance, compare against industry peers, and identify areas for improvement; in turn enabling them to maintain access to sustainability-led investors and a low cost of capital. By successfully integrating climate change into business strategies companies can also prepare themselves for the low-carbon transition and contribute to positive climate assessments by investors and rating agencies.

It is an assessment of credible governance which should enable companies to set credible targets rather than an assessment of climate performance or the quality of targets that a company has set. Based on publicly available information, but provided privately, the Climate Governance score provides a measure of whether there is credible governance around climate and a seriousness of approach which should in turn enable a company to set appropriate targets and achieve strong emissions reduction performance. (*see Exclusions for more detail*).

How does it work?

The underlying methodology for the Score is that of the Transition Pathway Initiative's (TPI) Management Quality Score (MQS). TPI is a global initiative led by asset owners and supported by asset managers which aims to empower asset owners to support action on climate change and the low-carbon transition. Using publicly disclosed data, TPI assesses the progress companies are making on the transition to a low-carbon economy in line with TCFD recommendations. The TPI methodology has academic and data rigour, working in partnership with the Grantham Research Institute and FTSE Russell (*see Governance for more detail*).

The Climate Governance Score expands the use of the MQS methodology to all London-listed companies in the FTSE Russell research universe. Eligible companies will be provided with a score between 0 and 4 as well as their industry average, all from within the issuer services platform on a confidential basis.

Online tool

All companies that are not covered by FTSE Russell can use the free online tool to estimate their score to understand how investors would assess their integration of climate change considerations into business strategy. The tool identifies which areas companies should focus on to improve their climate change management practices.

Companies that receive a score via the issuer services platform can also use the tool to see a breakdown of the methodology, as well as to receive recommendations on which metrics they should focus on in their reporting.

Benefits

- Credible as builds on corporate climate action benchmark with both academic rigour and large-scale institutional support
- Using recognised industry reporting standards, companies can identify what information related to climate is considered material to investors and is informing their investment decision making
- Companies can understand which metrics to focus on to improve their climate disclosure
- Companies can compare performance to industry peers
- Provided privately to issuers as an educational resource.

Governance

Recognised standards alignment

Task Force on Climate-Related Financial Disclosures (TCFD)

The recommendations of TCFD are rapidly becoming a global industry standard for reporting on climate change risk and opportunities. In some jurisdictions, including in the UK, it has become mandatory for some companies to report against them.

Its recommendations are helping companies provide better information to support informed capital allocation and more broadly to help financial markets appropriately price climate-related risks and opportunities. It is structured around four thematic areas comprised of governance, strategy, risk management, and metrics and targets.

The Transition Pathway Initiative (TPI)

TPI's assessment comprises two parts:

- Management Quality Score – the quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition.
- Carbon Performance Score – how companies' carbon performance now and in the future might compare to the international targets and national pledges made as part of the Paris Agreement.

Its MQS assessment criteria is aligned to and modelled on TCFD recommendations and based on 19 indicators. It places companies at one of five levels ranging from Level 0 – Unaware to Level 4 – Strategic assessment.

Companies progress through the assessment by answering yes to every question at each level. A company needs to answer yes on all of the questions pertaining to a level before they can advance to the next level.

Eligibility

FTSE Russell assess companies based on the MQS methodology on an annual basis and the London Stock Exchange will update the Climate Governance Score of companies shown in the issuer services platform in Q4 annually.

Exclusions

Managing greenhouse gas emissions and integrating climate change into business strategy is one element of preparing for the low-carbon transition. Of equal importance is actual emissions, their trajectory, and how this compares to international targets as part of the UN Paris Agreement aimed at drastically reducing carbon emissions to limit global warming to two degrees above the pre-industrial level.

Though there is a general trend that good carbon management systems can lead to lower future emissions, carbon management is not an indication of current emissions.

The London Stock Exchange's Climate Governance Score is therefore not an assessment of companies carbon emissions, current or predicted, and should be seen as an isolated assessment of a companies management of climate change considerations and integration into business strategy rather than a recognition of a companies' carbon performance.

Future developments

Future iterations of the score will seek to address companies' carbon emissions pathways to give a holistic view of companies progress towards low-carbon. This will take time and needs to be in partnership with other stakeholders and engagement with clients. The Score will continue to align with FTSE Russell, TPI and appropriate climate engagement frameworks as they scale up and evolve.

Contact

For any queries in relation to your Climate Governance Score please contact **sustainablefinanceenquiries@lseg.com**

Appendices

Methodology breakdown

LEVEL 0

Q1
Does your company acknowledge climate change as a significant business issue?

Consider whether your business has a policy or an equivalent statement committing to take action on climate change; have set greenhouse gas emission reduction targets; or publish information on your operational greenhouse gas emissions.

If yes – proceed
If no – placed at level 0

LEVEL 1

Q2
Does your company recognise climate change as a relevant business risk and/or opportunity?

If you answer yes to two or more of the following questions, please select 'Yes'

- Is there a process to manage climate-related risks?
- Have you set long-term quantitative targets for reducing greenhouse gas emissions?
- Have you incorporated climate change performance into renumeration for senior executives?
- Are climate change risks and opportunities incorporated into your company strategy?
- Do you undertake climate scenario planning?
- Do you disclose an internal price of carbon?
- Have you ensured consistency between your climate change policies and the positions taken by trade associations of which you are members?

If yes – proceed
If no – placed at level 1

Q3
Do you have a company policy stating your commitment to acting on climate change issues? (e.g. reducing your emissions or improving your energy efficiency)

If yes – proceed
If no – placed at level 1

LEVEL 2

Q4
Has your company set greenhouse gas emissions reduction targets?

Note that these may be quantified or unquantified

If yes – proceed
If no – placed at level 2

Q5
Has your company published information on its operational greenhouse gas emissions?

If yes – proceed
If no – placed at level 2

LEVEL 3

Q6
Has a board member or board committee been nominated by the company with explicit responsibility for oversight of the climate change policy?

If yes – proceed
If no – placed at level 3

Q7
Have measurable targets been set by the company for reducing greenhouse gas emissions?

These targets should have been set as quantitative targets to reduce greenhouse emissions in relative or absolute terms.

If yes – proceed
If no – placed at level 3

Q8
Does your company report on emissions from your supply chain and from the use of their products?

If yes – proceed
If no – placed at level 3

Q9
Has your company had its operational greenhouse gas emissions data verified by a third party?

If yes – proceed
If no – placed at level 3

Q10
Does your company support domestic and international efforts to mitigate climate change?

Your company must 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.

If yes – proceed
If no – placed at level 3

Q11
Does your company disclose its membership and involvement in trade associations engaged in climate issues?

If yes – proceed
If no – placed at level 3

Q12
Is there a process at your company to manage climate-related risks?

Consider whether climate change has been integrated into multi-disciplinary company-wide risk management, or if there is a specific climate-related risk management process.

If yes – proceed
If no – placed at level 3

LEVEL 4

Q13
Does your company disclose materially important emissions from your supply chain and from the use of their products?

If yes – proceed
If no – placed at level 4

Q14
Have long term (more than 5 years) quantitative targets been set by your company to reduce your greenhouse gas emissions?

If yes – proceed
If no – placed at level 4

Q15
Does your company's renumeration for senior executives incorporate climate change performance?

If yes – proceed
If no – placed at level 4

Q16
Are climate change risks and opportunities incorporated into the company strategy?

This can be answered yes if the company incorporates climate change risks and opportunities into their strategy and if they disclose the image of climate change risks and opportunities on financial planning.

If yes – proceed
If no – placed at level 4

Q17
Does your company undertake climate scenario planning?

If yes – proceed
If no – placed at level 4

Q18
Does your company disclose an internal price of carbon?

If yes – proceed
If no – placed at level 4

Q19
Have you ensured consistency between your climate change policies and the positions taken by trade associations of which you are members?

If yes – proceed
If no – placed at level 4