July 18th, 2021

Revised final version replacing July 16th submission
Via electronic mail

Michael R. Bloomberg
Chair, TCFD

Ms. Mary Schapiro
Head of TCFD Secretariat

Re: Consultation on Proposed Guidance for Climate-related Metrics, Targets, and Transition Planning

Dear Mr. Bloomberg and Ms. Schapiro,

The Institute of International Finance (IIF) and its members, which broadly represent the global financial services industry ("industry"), appreciate the opportunity to provide high-level comments to the Taskforce on Climate-related Financial Disclosures (TCFD), and its Secretariat, on its public consultation on Climate-related Metrics, Targets and Transition planning ("consultation"). The IIF is a global association, with close to 450 members from 70 countries, including commercial and investment banks, asset managers, and insurance companies. The comments in this letter have been informed by discussions of the IIF Sustainable Finance Working Group (SFWG), under the leadership of Chair Judson Berkey (Managing Director and Group Head of Sustainability Regulatory Strategy, UBS).

Since their finalization in 2017, the TCFD Recommendations have provided a valuable framework to guide climate related financial disclosures. Their influence and success can be measured both by the number of supporting institutions as well as the fact that elements of the Recommendations and Guidance are being reflected in legislation, policy frameworks and regulatory requirements in a number of jurisdictions (e.g. New Zealand, UK, Switzerland, Hong Kong), and have been referenced explicitly in regulatory guidance documents or other disclosure guidelines (e.g. MAS Environmental Risk Management Guidelines, EU NFRD Guidelines on non-financial reporting: Supplement on reporting climate-related information – to be replaced by the forthcoming Corporate Sustainability Reporting Directive). Thus, the TCFD has moved well beyond a set of recommendations to become a de-facto global standard, and provides a helpful model for how further international sustainability reporting standards may usefully develop under the proposed IFRS ISSB, as noted in the FSB July 2021 *Report on Promoting Climate-Related Disclosures*.

Recent developments, including Net Zero commitments by governments and companies, and the increasing focus on forward-looking risk assessment (including scenario analysis), and the development of plans and strategies to align businesses with the low-carbon transition create a valid and strong impetus for an update of the TCFD Recommendations and Guidance. The TCFD's consultation is therefore an important and helpful contribution that can meaningfully enhance aspects of climate related disclosures by corporates and financial institutions. The expansion of the guidance relating to metrics and targets can support preparers' efforts to deliver decisionuseful information on forward-looking aspects of climate risk and alignment. In particular, the introduction of Recommendations pertaining to transition plans provides a helpful framework for corporates, particularly those in high emitting sectors, to disclose necessary information that financial institutions require to inform their own climate alignment strategies. Similarly, guidance on reporting on target-setting by financial institutions could be helpful in shaping evolving practices; the IIF is undertaking activities to develop a set of disclosure templates to help advance efforts around greater consistency and comparability of disclosures.

The IIF and its members are strongly supportive of many aspects of the proposals made in the consultation, including on topics such as forward-looking metrics. As users of disclosures, financial institutions consider forward-looking disclosures to be critical from a strategic, operational, and compliance perspective, considering the evolving range of policy and regulatory expectations and requirements on financial institutions which consider forward-looking disclosures. However, while there are many aspects of the consultation which are directionally correct, and likely to add value over time, the financial industry perceives that there are a range of issues and challenges which warrant consideration before any formal amendments to the TCFD Recommendations and Guidance are finalized. These include **the level of maturity of metrics and related methodologies, the divergent relevance of certain metrics to financial institutions' business models, and the need for clearer implementation timelines and guidelines** particularly given the formal or informal role TCFD Recommendations now play in many regulatory frameworks. From a preparer perspective, financial institutions recognize the need for a progressive and phased approach to future amendments of the TCFD Recommendations, including on aspects (such as forward-looking metrics) where practices are still evolving. In the near term, room should be given for more experimental approaches to disclosures, where needed, namely where fully elaborated forward-looking metrics are still missing.

Furthermore, there are a range of issues relevant to existing TCFD disclosures beyond the items addressed in this consultation which require further work before new disclosures are introduced – including **the need for greater consistency and comparability in how individual jurisdictions are actually implementing TCFD recommendations into their rules, and clarity on the intended relationship of the TCFD to the effort to develop a global disclosure framework under the initiative of the IFRS/ISSB.**

This letter addresses these two sets of issues in turn, and aims to provide a high-level, cross-sectoral, and cross-jurisdictional perspective on how the TCFD can most efficiently take forward the revision of its Recommendations and Guidance, with a view to supporting global alignment of disclosure frameworks.

General Perspectives on climate-related metrics, targets and transition planning

While some of the metrics proposed are reflective of how the conversation has evolved since 2017, other metrics (e.g. future climate-related financial impacts) are at an initial stage of development, and are still too immature to be recommended across sectors. The data and metrics used by corporates, upon which financial institutions rely, remain inconsistent in coverage, quality, and comparability in many instances. For other of the metrics proposed (e.g. internal or shadow carbon prices) there are wide divergences in approach taken by firms within a given industry and across industries. Thus, it may be helpful for the TCFD to indicate which new Recommendations should be considered as 'leading practice' for now, and which are considered as core disclosure expectations. It also may be useful to more clearly note which new requirements should be subject to materiality considerations in light of firms' business models, particularly given the FSB report observation (see Section 2.3) about the different use of materiality by national authorities when incorporating TCFD recommendations into rules or guidance. This may allow for further experimentation and development by firms and the progressive development of data and approaches as well as alignment on approach across firms and across industries.

A more specific delineation between metrics that may be appropriate for risk assessment purposes versus those appropriate for evaluating alignment with climate goals, could also be useful. With the expansion of the proposed guidance, more of the TCFD recommendations are veering towards an alignment framework. As the TCFD is fundamentally a risk disclosure framework, it would be useful to delineate risk and alignment more clearly than in the current guidance, and to clarify the degree to which the TCFD may shift from its current focus (purely a financial risk perspective) to something closer to the enterprise value perspective intended by the IFRS ISSB. For example, portfolio alignment metrics, while having their merits, remain at this stage still very much works in progress with a high degree of subjectivity and variation in methodology. The materials developed by the Portfolio Alignment Team are very helpful in this regard. However, it would be beneficial to have further progress on the issues outlined in the PAT report before formally requiring such disclosures – this is particularly relevant in jurisdictions where TCFD is emerging as a formal regulatory requirement.

The absence of common methodologies, horizons, and scopes for some of the proposed metrics (e.g. forward looking alignment metrics, physical risks, internal shadow carbon prices) may lead to highly divergent disclosure outcomes, further impeding comparability. We urge the FSB to highlight the need for international consistency and ensure that the G20 gives clear mandates to specific international bodies to advance the level of maturity of metrics and related methodologies. On the topic of internal carbon pricing specifically, firms are advised to independently define and measure the impact of internal carbon pricing. The specification of a range of carbon price 'bands' may be useful in firm's disclosure of climate financial impact metrics. The proposed guidance could more clearly articulate how these may be implemented in light of the evolution of global convergence in carbon pricing, across regulated schemes and voluntary markets.

The TCFD should provide greater clarity as to which sectors should be disclosing transition plans. The proposed guidance allows for self-determination of whether a firm may face material climate-related transition risks, and as such, introduces a subjective judgement on whether or not a firms should disclose a transition plan. To reduce ambiguity, the TCFD should seek to clarify which sectors should be disclosing transition plans, focusing on high-carbon sectors as the primary focus in the near term. This would allow users of such disclosures (including financial institutions) to better differentiate firms on the basis of their transition readiness, and provide a necessary data input for the financial sector to develop informed judgements regarding transition strategies and, over time, relevant transition plan disclosures.

Finally, the TCFD should provide clear information on the timelines over which corporates and financial institutions would be encouraged to deliver new disclosures, in order to enable industry stakeholders to more efficiently tackle challenges of delivering disclosures in new areas. While it is encouraging that the proposed guidance is reflective of how the conversation surrounding disclosures has evolved since 2017, the requirements are moving increasingly quickly. As it stands, the consultation does not offer guidance as to when firms should implement the proposed changes by. If the expectation is that the updated guidance will be reflected in the next round of reporting, preparers will have a very limited amount of time to respond to these developments and reflect them in the next round of reports. Thus, the TCFD should clarify what aspects, if any, should be integrated in disclosures released in 2022/23, and clearly indicate to the official sector that policy frameworks, supervisory expectations, and potential regulatory requirements should reflect a phased implementation process (e.g. during the period 2022-25). It is notable in this respect that the recent UK FCA consultation on climate disclosures targets 2023 as the timeline for first mandatory disclosures giving firms time to implement the new requirements, and that the forthcoming mandatory Corporate Sustainability Reporting Directive in Europe requires for financial and non-financial undertakings to deliver the first reports by 2024 (covering the financial year 2023).

Broader issues: Clarifying the pathway towards global alignment

As TCFD is being reflected in regulation, its compatibility, role within the broader landscape, and potential jurisdictional translations should be considered carefully. While the IIF appreciates the TCFD is not a standard-setting body, it is important to recognize that the TCFD is increasingly being reflected in standards and regulations globally, as documented in the FSB report. Furthermore, as the global landscape for climate disclosure continues to grow in size and complexity, it is imperative that the TCFD guidelines are designed with consideration for their compatibility with global standards and regulations. If not designed with global compatibility and potential jurisdictional translations as a key concern, the risk of fragmentation in disclosure frameworks – and subsequent comparability challenges – will increase.

In this respect, we welcome the agreement reached by the G7, also acknowledged by IOSCO, on the need for global reporting standards for sustainability, under robust governance and public oversight and with the view to accelerate convergence. We also the work of the G20 Sustainable Finance Working Group on alignment of disclosure frameworks, and the vision set out by the FSB in the July 2021 *Roadmap for Addressing Climate-related Financial Risks.*

We welcome the intention of the ISSB to strongly build on the TCFD framework, and collaborate with the TCFD in the process to develop a future IFRS standard set to be complete by June 2022. Industry participants would benefit from further information on the practicalities of the integration between final Recommendations from the TCFD and the proposed IFRS standard. One path forward could be for the TCFD to finalize its revision to the recommendations but then rather than formally publish them instead provide the work as an input to the IFRS SSB efforts. This is effectively what the FSB report suggests based on its own analysis (e.g. see p 21 *"The TCFD is undertaking additional work to provide more guidance on metrics and targets, as well as transitioning planning, in its public consultation issued June 2021. This work can serve as informative input for the development of international reporting standards."*).

It is notable that the FSB report states 18 out of 25 jurisdictions surveyed recognized the need for international standards and directly referenced the IFRS work. The UK government has also stated that it will revise its climate disclosure framework assuming that the IFRS ISSB is successful in developing a comprehensive and credible climate disclosure standard (see, e.g., statement in UK BEIS TCFD consultation from Mach 2021 – "*We believe that it is important and preferable that climate change reporting is ultimately done against international standards and are mindful that legislative requirements that we bring in now should not hinder our ability to subsequently align with international standards for use in the UK if appropriate")* This support for international standards is reinforced by the FSB Climate Risk Roadmap which incorporates the IFRS work as a significant building block. Thus, while we do see the TCFD update as a useful input at this time it should be incorporated into the wider effort to develop an international standard implemented consistently across jurisdictions globally.

The TCFD should also consider leveraging and formally linking with channels that may be able to facilitate alignment, including leveraging the work of industry stakeholders, and public-private partnerships. This may be especially critical if the IFRS ISSB does develop sector specific guidance. For example, the IIF is currently engaged in the development of a standardized template for TCFD disclosures, which will provide banks and other financial institutions with a materially consistent template for the structure, format and coverage of disclosures. We would be pleased to share our insights drawn from industry consensus on how climate-related disclosures and contextual information relevant to disclosure should be conveyed to the market, and how the different types of metrics proposed to the TCFD should be applied in disclosures with the TCFD.

On behalf of the IIF Sustainable Finance Working Group, we hope that these global industry perspectives will contribute to your efforts. We would be happy to discuss any of these matters further and invite you to contact Sonja Gibbs (sgibbs@iif.com) and Jeremy McDaniels (jmcdaniels@iif.com) should you have questions or comments.

Sincerely,

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Chair of the IIF Sustainable Finance Working Group

Sonja Gibbs
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