

IIGCC response to TCFD public consultation on metrics, targets and transition plans

The Institutional Investors Group on Climate Change (IIGCC) is the leading European membership body enabling the European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 325 members, representing €39 trillion AUM, are in a position to catalyse real world change through their capital allocation decisions, stewardship and engagement with companies and the wider market, as well as through their policy advocacy.

For more information visit www.iigcc.org and [@iigccnews](https://twitter.com/iigccnews).

IIGCC welcomes the opportunity to provide input into the TCFD's consultation on metrics, targets and transition plans. We have submitted a response to the survey, but in the interest of completeness, we are also providing the TCFD Secretariat with our full response. This response was developed in collaboration with our members, and provides further detail on a number of questions that we were not able to complete as part of the survey.

Executive Summary

IIGCC notes the shift within the TCFD consultation towards metrics and targets focusing on forward-looking alignment with climate objectives (alongside metrics for assessing climate-related risks and opportunities). Through the Paris Aligned Investment Initiative (PAII), the development of the Net Zero Investment Framework (NZIF), and the Climate Action 100+ Net Zero Company Benchmark (CA100+ Benchmark), IIGCC has undertaken significant work with members on metrics and indicators to capture forward looking alignment for portfolios and companies. We have therefore based our response on work undertaken through these initiatives, and the relevant metrics and indicators proposed therein.

IIGCC supports the TCFD's proposals to introduce additional guidance on climate-related metrics and targets. In order for climate-related disclosures to be decision-useful for investors, they need to become more consistent, and as the TCFD acknowledges, a key driver of improved consistency will be the development of comparable, standardised industry metrics. However, we are concerned that the high-level nature of the proposed cross-industry metrics provides excessive flexibility for companies to interpret and calculate them in a variety of ways. In the absence of more granular metrics, disclosed in a standardised format and based on comparable methodologies, it will be difficult for investors to assess risks and develop credible, quantified climate-related targets. In addition, investors will face challenges in determining whether their investee companies are setting credible climate-related targets and taking meaningful action to manage risk and transition to a net zero economy.

IIGCC also emphasises the need for a differentiated approach between the metrics and targets to be developed and disclosed by investors in relation to portfolio alignment, and those to be made by corporates in order to support investors' assessments of current and forward-looking alignment of their holdings. The proposed metrics in the TCFD consultation have been developed on a cross-industry basis, which does not sufficiently distinguish between the relevance of the metrics and targets for investors and corporates respectively.

The capacity for investors to disclose against the proposed cross-industry metrics will also depend on the extent to which their investee holdings are producing consistent, comparable and decision-useful disclosures against these metrics. While such disclosures remain voluntary, it will be challenging for investors to provide this information in a comprehensive way. For asset managers and owners, IIGCC recommends that disclosure of the proposed metrics should be to the extent possible.

Finally, with regards to the supplementary guidance for the financial sector, we broadly agree with the seven criteria proposed by the Portfolio Alignment Team. However, we are cautious about the continued expectation that implied temperature rise metrics are the most optimal portfolio alignment metric, given the current challenges associated with such a methodology. However, IIGCC acknowledges that forward-looking assessments of alignment for assets and measuring portfolio performance are critical for achieving the transition to net zero, and we would welcome the opportunity to engage further with the TCFD as it continues to develop recommendations in this area.

Proposed guidance on climate-related metrics and financial impacts

Question 24: As part of which activities is your organization using climate-related metrics and financial impacts for decision-making? Select all that apply.

- [IIGCC response] a. Strategic planning and goal setting
- [IIGCC response] b. Risk identification and assessment
- [IIGCC response] c. Financial planning and budgeting (e.g., capex, opex)
- [IIGCC response] d. Operating and business unit plans

[IIGCC response] e. Board and Senior Management understanding of issues

[IIGCC response] f. Other (please specify): Delivery of Paris-aligned accounts

Question 25: Is there anything additional you would like to tell us about your response above?

The usefulness of climate-related metrics in supporting the above activities will depend on the extent to which they are calculated in a consistent, standardised way and can be meaningfully compared across sectors and companies. This is particularly important for key indicators such as emissions reduction targets and the alignment of capital expenditure with these targets. At present, we are concerned that the proposed guidance on metrics is too high level and open to interpretation to be truly decision-useful for investors.

In addition to the above activities, investors expect companies financial accounts to incorporate critical assumptions and estimates that adequately align with the goals of the Paris Agreement. This includes the accurate reflection of material climate impacts on carbon intensive assets to account for escalating carbon taxes and other climate policies, revising the useful life of assets in line with net zero, assessing whether end-of-life clean up liabilities should be brought forward, and accounting for falling renewable energy costs. These accounts should be seen as complementary to, and consistent with, improved narrative reporting in line with the TCFD framework. We recommend that the TCFD provides clear guidance on how assessments of climate-related financial impacts can enable Paris-aligned accounting and audits by all corporates, and particularly those in high impact sectors. This should build on guidance issued by the IFRS, which sets out how material climate risks should be considered under existing accounting standards.

For more information, see IIGCC's report on Investor Expectations for Paris-aligned accounts.

Question 26: If all organizations disclosed the proposed climate-related metrics and financial impacts, how much would that improve the comparability of climate-related disclosures?

a. A lot

[IIGCC response] b. A little

c. Not at all

Question 27: Is there anything additional you would like to tell us about your responses above?

As noted above, improvements in the comparability of climate-related disclosures will depend on the extent to which companies calculate and disclose the proposed metrics in a consistent way. Although the metrics align with the wider pillars of the TCFD framework, their high-level nature leaves room for divergent interpretations as to how they should be calculated. This in turn undermines the ability of investors to directly compare climate-related disclosures across their holdings. We acknowledge that the TCFD is not a standard setter, and that a degree of flexibility is needed to enable the broadest adoption of cross-industry metrics, which jurisdictions can then adapt to meet their specific needs. However, in order to effectively operationalise these metrics, it will be essential for standard setters to build on the proposals by introducing consistent, standardised methodologies for calculating them.

Question 28: Should the proposed cross-industry, climate-related metrics and climate-related financial impacts be subject to a materiality assessment?

Cross-industry, climate-related metrics	Should be disclosed based on materiality assessment	Should be disclosed irrespective of materiality	I'm not sure
Absolute Scope 1 and 2 GHG emissions		X	
Relevant, material categories of Absolute Scope 3 GHG emissions		X	
Shadow/internal carbon price(s)			X
Proportion of assets and/or operating, investing, or financing activities materially exposed to physical risks, based on key categories of commonly accepted risks		X	
Proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks, based on key categories of commonly accepted risks		X	
Proportion of assets and/or operating, investing, or financing activities aligned toward climate-related opportunities, based on key categories of commonly accepted opportunities		X	
Amount of senior management remuneration impacted by climate considerations		X	

Amount of expenditure or capital investment deployed toward climate risks and opportunities		X	
Climate-related financial impacts (e.g., those impacted by cross-industry, industry-specific and company-specific metrics)			
Impact of any material climate-related risks or opportunities on financial performance (e.g., cost, profitability, operating cash flow, impairment)		X	
Impact of any material climate-related risks or opportunities on financial position (e.g., assets and liabilities)		X	

Question 29: Is there anything additional you would like to tell us about your responses above?

In line with guidance issued by the UK Financial Reporting Council, climate-related information should be considered material if omitting it or misstating it could influence, or reasonably be expected to influence, the decisions that users of the annual report (such as investors) might make about the company based on the annual report as a whole. To the extent that the proposed metrics are key to investors’ understanding of the climate-related risks and opportunities that companies are exposed to, IIGCC believes that they should be disclosed irrespective of a materiality assessment. However, we do not believe that it is proportionate for corporates and financial services firms to disclose uniformly against all the proposed metrics on the same basis.

The consultation does not provide a clear definition of ‘materiality’, meaning there is considerable room for interpretation when determining what constitutes material information. This creates a risk that companies will adopt inconsistent approaches to materiality assessments, which in turn undermines the capacity to make informed investment decisions.

In addition, the TCFD does not distinguish between materiality in the context of corporate disclosures and disclosures to be made by investors. For example, while it is reasonable to expect companies across all sectors to disclose Scope 1, 2 and relevant, material Scope 3 emissions irrespective of materiality assessments, implementing and disclosing a shadow carbon price could be perceived as less relevant/proportionate for an asset manager or asset owner than for a corporate (particularly corporates in high impact sectors – see Appendix B of [NZIF](#) for more information). IIGCC recommends that the TCFD provides additional clarity/guidance on the relevance of the proposed metrics and financial impacts for corporates and investors respectively.

We would also note that the capacity for asset managers and asset owners to make these disclosures (e.g. in relation to proportion of assets exposed to certain risks) will largely depend on the extent to which their investee holdings are producing consistent, comparable and decision-useful disclosures with regards to the proposed metrics. While such disclosures remain voluntary, it will be challenging for investors to provide this information in a comprehensive way. For asset managers and owners, disclosure of these metrics should therefore be to the extent possible.

Question 30: Which types of organizations should implement and disclose a shadow carbon price? Select all that apply.

[IIGCC response] a. Banks

[IIGCC response] b. Insurers

[IIGCC response] c. Asset owners

[IIGCC response] d. Asset managers

e. Other financial-sector participants (e.g., rating agencies, financial data aggregators)

[IIGCC response] f. Companies in the Energy Group (i.e., oil and gas, coal, electric utilities)

[IIGCC response] g. Companies in the Transportation Group (i.e., air freight, passenger air, maritime transportation, rail transportation, trucking services, automobiles)

[IIGCC response] h. Companies in the Materials and Buildings Group (i.e., metals and mining, chemicals, construction materials, capital goods, real estate and management)

[IIGCC response] i. Companies in the Agriculture, Food, and Forest Products Group (i.e., beverages, agriculture, packaged foods and meats, paper and forest products)

[IIGCC response] j. Companies in other non-financial sectors (e.g., retail and consumer goods, professional services, information technology, telecommunication services)

k. NONE of the above

l. ALL of the above

Question 31: Is there anything additional you would like to tell us about your response above?

IIGCC supports the implementation and disclosure of robust shadow carbon prices by companies as a useful forward-looking metric that can help to manage and internalise climate-related transition risks and opportunities. In turn, shadow carbon prices may be used by investors as they assess the potential impact of policy and regulatory change on companies' valuations. However, we believe this should be done in the first instance at the individual corporate level. The implementation of a shadow carbon price is most applicable to corporates, particularly those operating in high impact sectors, as a tool for capital allocation and assessing the impact of a range of climate scenarios on profitability and business strategy. It is also an important input into companies' accounting and audit processes, including in relation to the useful life of assets, future prices/margins used in asset impairment tests and asset retirement obligations.

Companies should regularly test the assumptions used to inform shadow carbon prices to reflect new developments. We agree that effective shadow carbon prices should be based on credible, science-based pathways necessary for meeting climate goals, and would go further than the proposed guidance in recommending that organisations should implement a carbon price that is aligned with a 1.5-degree (rather than 2-degree) pathway. In addition, companies should disclose the results of any sensitivity analysis linked to variations in these assumptions or estimates, as well as in the notes to their accounts.

We would also emphasise that the implementation of a shadow carbon price is one of a number of metrics which investors should use to assess the exposure of their holdings to climate risk. Carbon prices are a useful proxy for stress testing exposures to climate-related risks, but they must be accompanied by other metrics to provide a holistic picture to investors, including alignment of capital expenditure with long-term emissions reduction targets (as set out in disclosure indicator 6 under the CA100+ Benchmark).

Question 32: Are there any modifications or additional metrics you would recommend as cross-industry, climate-related metrics to improve comparability?

a. No suggested modifications or additional metrics

[IIGCC response] b. Yes

Question 33: Please explain the suggested modifications and / or additional metric(s) you would recommend.

Overall, our key concern is that the high-level nature of the metrics proposed by TCFD provide excessive flexibility for companies to interpret and calculate them in a variety of ways. This ultimately undermines the ability of investors to compare climate-related risks and opportunities across their holdings. In the absence of more granular metrics, disclosed in a standardised format, it will be difficult for companies to develop credible, quantified climate-related targets, and for investors to assess whether their investee companies (particularly those operating in high impact sectors) are taking meaningful action to transition to a net zero economy.

As such, in addition to the proposed metrics, IIGCC believes companies in high impact sectors should also disclose against the indicators established under the CA100+ Benchmark framework to enable investors to assess alignment with a 1.5-degree pathway.

IIGCC therefore recommends corporates disclose against the following additional metrics, in line with the CA100+ Benchmark:

- Qualitative net zero emissions ambition statements/commitments across Scope 1 and 2 emissions, and the most relevant Scope 3 emissions categories for the company's sector, where applicable.
- Short, medium and long-term emissions intensity reduction targets, aligned with a 1.5-degree pathway. In order to allow for effective comparisons between companies, it will be important to disclose emissions intensity targets, while recognising the need to explain the implications of these targets for absolute emissions.
- Implementation of a quantifiable decarbonisation strategy to meet medium- and long-term emissions reduction targets, which clearly refers to the main sources of emissions, including Scope 3 emissions where applicable. The strategy should also include commitments to 'green revenues' from low carbon products and services, expressed as a percentage of total revenue. At present, the definition of 'green revenues' aligns with the EU Taxonomy's criteria on 'turnover' (or revenues) for companies headquartered in the EU (as well as the UK, Switzerland and Norway). Future iterations of this indicator will assess non-EU companies using appropriate green revenue classification systems and/or regional taxonomies where available.
- Alignment of capital expenditure with long-term emissions reduction targets.
- Company commitments to conduct lobbying in line with the Paris Agreement goals /disclosure of trade association membership and commitments to ensure trade associations lobby in line with the Paris Agreement.
- Climate governance metrics: evidence of responsibility for net zero commitments, if made (and whether this responsibility resides with the board), evidence of board responsibility/oversight of climate-related risks and opportunities, explicit accountability for climate change at

board level, assessments of board capabilities to manage climate risks and opportunities, and the establishment of a committee responsible for climate change, reporting to the board.

- Just Transition: whether the company has assessed and developed measures to prepare for the impacts from transitioning to a lower-carbon business model on its workers and communities.

In line with our response to Q25, we expect companies to deliver Paris-aligned accounts, and auditors to provide an opinion as to whether the published accounts are consistent with a 1.5-degree pathway. To meet expectations for Paris-alignment, companies should make the following five disclosures in their annual reports and accounts:

- Board Affirmation that a 2050 net zero pathway has been considered in drawing up the accounts.
- Adjustments to critical assumptions and estimates: an explanation for how critical accounting judgments are consistent with net zero carbon emissions in 2050. If directors choose not to use Paris-aligned assumptions, they must explain why in the Notes to the accounts.
- Sensitivity analysis: if the directors have chosen not to use Paris-aligned assumptions in their core accounts, they should provide sensitivity analysis in the Notes of how Paris-aligned assumptions would impact the reported financial statements.
- Dividend resilience: implications for dividend paying capacity of Paris-alignment (e.g. threshold assumptions that would trigger cuts to dividends). This is particularly important where companies have not used Paris-aligned assumptions in their core accounts.
- Consistency: affirmation by Board of consistency between narrative reporting on climate risks and the accounting assumptions, or an explanation for any divergence.

IIGCC also recommends that investors seeking to align their portfolios with net zero should disclose the following metrics and targets in line with the TCFD framework, as currently set out in the disclosure section of the PAII's [NZIF](#) (page 23):

- The targets, and metrics associated with these targets, as set out in the NZIF including:
 - Emissions reduction targets (Scope 1 and 2) covering listed equity, fixed income, real estate, expressed in absolute or intensity terms (CO₂e/\$mn invested). Scope 3 to be phased in over time and measured separately.
 - A target for increasing the percentage of assets under management (AUM) invested in assets in material sectors that are i) net zero, or meeting criteria to be considered net zero ii) 'aligned' to a net zero pathway iii) 'aligning' to a net zero pathway.
 - A target for allocation to climate solutions representing a percentage of revenues or capital expenditure (capex) from AUM, where 'climate solutions' are defined in accordance with the EU Taxonomy mitigation criteria where possible.

- A description of how these targets were calculated, and evidence and information that was used to inform the target setting process.
- The science-based scenario(s) or pathway(s) used to guide target setting and assess the alignment of companies, including the name of the relevant model(s), and critical assumptions used.
- The datasets or methodologies used to assess alignment of assets, and the extent to which these are consistent with the key features of the methodologies.
- Performance against targets over time, and any updates or adjustments to targets that are relevant.

The NZIF also includes investor disclosure recommendations in relation to the governance, strategy and management pillars of the TCFD framework. We would encourage the TCFD to consider these recommendations in relation to the potential content of transition plans for investors, alongside the additional recommended disclosures on metrics and targets, to ensure a comprehensive approach to alignment-related disclosure guidance. For more information, see the [CA100+ Benchmark](#), the PAII's [NZIF](#) and IIGCC's [Investor Expectations paper on Paris-aligned accounts](#).

Question 34: Please provide any additional comments you have on the TCFD proposed guidance on climate-related metrics and financial impacts.

No comments.

Proposed supplementary guidance for the financial sector

Question 35: What methodology does your organization leverage for estimation of financed emissions?

- [IIGCC response]**
- a. Partnership for carbon accounting financials (PCAF) methodology
 - b. Weighted average carbon intensity (WACI) methodology
 - c. Another methodology (please specify): _____
 - d. We do not currently disclose financed emissions

Question 36: Is there anything additional you would like to tell us about your response above?

In line with the recommendations of PAII, IIGCC specifically recommends that investors use enterprise value including cash (EVIC) to report financed emissions. This aligns with the recommendations of the Partnership for Carbon Accounting Financials (PCAF), with which PAII has a formal partnership. IIGCC also advises that investors adhere to PAII’s recommendation to use the emissions accounting standard developed and in development by PCAF more broadly and aims to align guidance produced by PAII/ IIGCC with the PCAF Standard whilst also inputting into its development.

Weighted average carbon intensity (WACI) is not recommended by IIGCC as the main metric for reporting financed emissions because of its limited applicability across the range of asset classes that are within scope of PAII. However, IIGCC recognises its value as part of a suite of climate-related metrics that should be utilised by investors. For example, WACI is particularly useful for portfolio managers when measuring and managing carbon risk exposure. Measuring carbon intensity based on revenues is also a good measure of efficiency and thus a useful criterion for the asset-level assessment of alignment of corporates within a sector (and related portfolio construction), especially when physical intensities are unavailable. WACI is useful for determining the “starting point” of a fund or portfolio compared to a reference or benchmark. It also provides insight into the pace at which portfolio-linked emissions need to rise or fall to remain within a specified portfolio carbon budget. However, WACI does not calculate ownership of emissions and cannot assign responsibility for emissions to investors. As this is a requirement for understanding and measuring an investor’s contribution to net zero goals, as set out in the NZIF, IIGCC recommends that an EVIC-based carbon footprint metric be added as the recommended reporting metric at the portfolio level.

Question 37: What are the key challenges your organization is facing or may face in disclosing financed emissions? Select all that apply.

[IIGCC response] a. Lack of internal expertise and / or resources

[IIGCC response] b. Lack of buy-in across organization

[IIGCC response] c. Hard to get relevant data

[IIGCC response] d. Selection/application of methodologies

e. Not required to disclose

[IIGCC response] f. Other (please specify): Risk of distortions/biases between geographies and public/private markets

g. No challenges

Question 38: Is there anything additional you would like to tell us about your responses above?

IIGCC notes that it will take time some time for investors to transition to new metrics i.e., transitioning from WACI to EVIC. IIGCC recognises options a)-d) as the most relevant challenges facing investors.

Lack of internal expertise and/or resources:

For many investors, measuring financed emissions generates an additional resource requirement and expectation of expertise that may not currently exist internally and will have to be developed over time. This is particularly the case for asset owners that have more limited capacity.

Lack of buy-in across organization:

IIGCC is aware that a number of investors have started to engage with fund managers regarding the use of EVIC to measure financed emissions. Limited data coverage, a lack of guidance on proxies when data is unavailable, and current TCFD guidance that establishes WACI as the recommended metric for reporting by asset owners and asset managers, have been cited as barriers to encouraging the uptake of EVIC.

Hard to get relevant data:

IIGCC is aware that a number of data providers have started to provide data points required to calculate EVIC, but these are not yet widely available. IIGCC believes that this is currently a barrier to measuring EVIC in a more comparable and consistent way. However, this barrier should be a short-lived issue if the market provides consistency in its recommendation for the use of EVIC.

Selection/application of methodologies:

It should also be noted that definitions and exact data points for EVIC across a number of asset classes are still to be determined. Investors are keen for further guidance where standardised approaches are lacking, for example in relation to proxies that should be used when investors do not have access to data points to calculate financed emissions from private companies. IIGCC is aware that PCAF is continuing its work in this area.

Other:

Another issue is access to book values for private companies. Application of EVIC across listed and unlisted companies and associated enterprise value-based carbon intensity comparisons can create biases that favour listed companies, as book values typically tend to be lower than market values. In addition, geographic biases can emerge as a result of varying degrees of access to public markets across regions, as well as differences in book-to-market ratios attributable to local accounting standards.

Question 39: There are different benefits derived from disclosure of financed emissions. How useful are disclosures of financed emissions in fulfilling the benefits described below?

	Not at all useful	Not very useful	Somewhat useful	Very useful
Ability to deliver on my organization’s climate ambition (i.e., one set by the Board and Senior Management)				X
Better decision making (e.g., investment, lending, insurance underwriting)			X	
More effective engagement with my value chain (e.g., with beneficiaries and counterparties)				X
Compliance with regulatory mandates				X
Compliance with investor reporting requests				X
Satisfying customer pressures				X
Other (please specify)				

Question 40: Is there anything additional you would like to tell us about your responses above?

No comments.

Question 41: Is your organization using portfolio alignment tools, and if so for what purposes? Select all that apply.

- [IIGCC response]** a. Target setting
- [IIGCC response]** b. Impact reporting
- [IIGCC response]** c. Capital allocation optimization
- [IIGCC response]** d. Informing counter-party engagement
- [IIGCC response]** e. Product development
- f. Transition risk quantification
- g. We are not using portfolio alignment tools

Question 42: Is there anything additional you would like to tell us about your response above?

Target setting:

IIGCC recommends that investors measure their portfolio alignment by measuring the forward-looking alignment of assets within a portfolio to determine the proportion of the portfolio that can be considered aligned to net zero based on a set of relevant criteria to assess assets within each asset class. These recommendations are aligned with the positions developed through the work of PAII. This asset-level alignment metric and target setting is combined with overall portfolio emissions reduction targets to ensure the alignment strategy is achieving the overall decarbonisation pathway needed over time.

IIGCC considers it insufficient for an asset to be considered aligned using what TCFD refer to 'binary target measurements' alone. We would draw attention here to the multi-criteria approach taken by PAII to assessing the alignment or alignment potential of underlying assets within a portfolio. This approach allows investors to hold assets that are likely to align to net zero over time, thereby supporting the transition, rather than reallocate to assets that are already less carbon intensive and therefore have little/no impact on real world emissions reductions. For listed assets, PAII determined the key criteria for assessing alignment for high impact sectors to be (in line with the CA100+ Benchmark):

- A long-term 2050 goal consistent with achieving global net zero.
- Short- and medium-term emissions reduction targets (Scope 1, 2, material scope 3).
- Current emissions intensity performance (Scope 1, 2, material Scope 3) relative to targets.
- Disclosure of Scope 1,2, material Scope 3 emissions.
- A quantified plan setting out the measures that will be deployed to deliver GHG targets, proportions of revenues that are green, and, where relevant, increases in green revenues.
- A clear demonstration that the capital expenditures of the company are consistent with achieve net zero emissions by 2050.
- The company has a Paris-Agreement-aligned climate lobbying position and demonstrates alignment of its direct and indirect lobbying activities.
- Clear oversight of net zero transition planning and executive remuneration linked to delivering targets and transition.
- The company considers the impacts from transitioning to a lower carbon business model on its workers and communities.
- The company provides disclosures on risks associated with the transition through TCFD Reporting and incorporates such risks into its financial accounts.

IIGCC recommends that investors should apply the range of criteria to individual assets based on the materiality of these assets to the transition, focusing on engagement with companies to increase their performance against the alignment criteria over time.

Impact report:

In the sense that ‘impact reporting’ here refers to measuring financed emissions and achieving real world emissions reductions, IIGCC believes that portfolio alignment tools, such as those proposed by PAII in the NZIF, and that are focussed on a forward-looking assessment of individual assets in aggregation to build a picture at the fund or portfolio level, are the key way to ensure that investors decarbonise portfolios in a way that incentivises emissions reductions in the real economy.

Capital allocation optimisation:

IIGCC recommends that investors use strategic asset allocation and similar processes to optimise the way assets are allocated for achieving Paris alignment, and undertake investment decision-making and portfolio construction in line with the recommendations of PAII. Specifically, we believe that investors should supplement standard financial objectives with current as well as forward-looking metrics that capture the transition potential of an asset e.g., those outlined in 1-10 above.

Product development:

IIGCC supports the PAII recommendation for asset managers to develop products and funds based on the alignment criteria and goals set out in the NZIF. As noted above, this includes a focus on the forward-looking trajectory of assets.

Question 43: In your opinion, what are the key challenges that need to be addressed across climate data and analytics in order to support the usefulness and adoption of portfolio alignment tools? Select all that apply.

[IIGCC response] a. Data availability

[IIGCC response] b. Data standardization

[IIGCC response] c. Data quality

[IIGCC response] d. Challenges specific to Scope 3 GHG emissions data

[IIGCC response] e. Climate scenario development or application

f. Other (specify): _____

Question 44: Is there anything additional you would like to tell us about your response above?

We recognise the substantial amount of work being undertaken across a range of initiatives to improve the availability and quality of emissions data (including the work of the TCFD) and to enhance the robustness of forward-looking transition pathways, notably through the Network for Greening the Financial System, the UN High Level Climate Champions and others. Going forward, and given the persistent challenges associated with measuring Scope 3 emissions in a consistent way, it will be useful to develop approaches for the comparable treatment of these emissions, and where and how they should be included.

Sector-and region-specific emissions pathways must be regularly updated to ensure they remain consistent with the latest decarbonisation efforts and climate scenarios. This includes the emissions reductions targets established under the CA100+ Benchmark, and the International Energy Agency's Net Zero Emissions 2050 (NZE 2050) scenario, which sets out a roadmap for achieving net zero emissions in 2050 without offsets from land use or forestry and with low reliance on negative emissions technologies. In addition, the external validation of forward-looking emissions targets developed by companies will help to improve their credibility and reliability, building on the work of the Science Based Targets Initiative, the CA100+ Benchmark and the Transition Pathway Initiative.

Question 45: What key benefits does the use of portfolio alignment tools have to your organization?

No comments.

Question 47: Are there outstanding questions related to the usefulness, challenges, and/or design of portfolio alignment tools not covered in the Portfolio Alignment Technical Supplement to which answers are needed in order for your organization to better incorporate such tools in your management processes?

No comments.

Question 48: TCFD is proposing a number of changes to the supplemental guidance for the financial sector. For each of the following, please tell us whether your organization supports the proposed changes.

Proposed changes	Yes	No	I'm not sure
Banks, asset managers, asset owners, and insurers should disclose exposure to carbon-related assets	X		
The term "carbon-related assets" should be expanded to refer to those assets tied to the four non-financial groups identified by the Task Force in its 2017 Final Recommendations (i.e., energy, transportation, materials and buildings, and agriculture, food, and forest products groups)			X
Banks, asset managers, and asset owners should disclose financed emissions	X		
If banks, asset managers, and asset owners disclose financed emissions, should they use the PCAF's methodology and WACI, if relevant, or a comparable methodology	X		
(Re)insurance underwriters should disclose WACI for their commercial property and specialty lines of business that cover tangible properties and goods			X
All financial institutions should disclose alignment of their portfolios with the goals of the Paris Agreement and incorporate forward-looking alignment metrics into their target-setting framework and management processes	X		

Question 49: Please provide any additional comments you have on the TCFD proposed supplemental guidance for the financial sector.

We welcome efforts to assess and strengthen the use of forward-looking metrics to measure the alignment of assets, that can support investors to allocate capital and undertake engagement in a way that drives the transition to net zero in the real economy.

We agree with the seven criteria proposed by the Portfolio Alignment Team. However, we are cautious about the continued expectation that implied temperature rise metrics are the most optimal portfolio alignment metric, given the current challenges associated with such a methodology, which are well noted in the document. These challenges would appear to make it challenging to meet the applicability, transparency and incentive optimality criteria set out. However, IIGCC acknowledges that forward-looking assessments of alignment for assets and measuring portfolio performance are critical for achieving the transition to net zero, and we support the TCFD's work to develop recommendations in this area. Our detailed feedback on the recommendations in the supplement on portfolio alignment metric is outlined below:

- Recommendation 1: IIGCC recommends using forward-looking portfolio alignment metrics for each asset class defined in the NZIF, which allow investors to determine and increase the proportion of assets in the portfolio which are aligned to net zero on a forward-looking basis.

- Recommendation 2: While metrics will need to reflect the circumstances of the investor, consistency is useful, particularly as it relates to forming a common basis for engagement with, and management of, assets. NZIF metrics were designed with input from a large number of investors to be useable for a wide range of institutional investors.
- Recommendation 3: We strongly agree that forward-looking alignment metrics should be used alongside emissions reduction targets. Emissions reductions should be a consequence of asset-level alignment to net zero, and therefore provide an important portfolio-wide indicator of the effectiveness of the investment strategy when accompanied with asset-level, forward-looking alignment targets.
- Recommendation 4: We agree that forward-looking alignment metrics are not necessarily designed to measure transition risk, and therefore should be used in addition to undertaking climate-related financial risk assessments.
- Recommendations 5, 6, 7, 8: We agree with using a single science-based scenario for clarity and transparency, and a convergence approach to avoid penalising high performing companies who have made progress along their transition path. The scenario used should reflect sectoral and regional differentiation and be updated regularly. However, benchmarking a company even against a regional and sectoral pathway may not provide sufficient recognition on the various options for decarbonising available within different sectors, which is why a credible decarbonisation strategy and capex allocation should be required for high impact sectors. The first bullet on page 6 of the consultation recognises the deficiency in applying even a regional and sectoral sector benchmark to any given company. Determination of the adequacy of transition plans is a new concept and does not lend itself to aggregation to an implied temperature rise model (ITR). Therefore, we recommend the approach to assessing and categorising a company's forward-looking alignment on the basis set out in the NZIF.
- Recommendation 9: We agree with the recommendations on methodologies for measuring emissions, and the ability to apply two benchmark measurements to the fossil fuel sectors.
- Recommendations 10, 11: We agree that including Scope 3 emissions is important to assessing alignment. However, an appropriate definition of materiality is required, as simplified approaches such as a percentage of overall emissions do not necessarily take account of important sources of Scope 3 emissions or recognise an asset's ability to influence these. It is not clear that double counting needs to be addressed if looking specifically at alignment, and removing double counting is an onerous and complex task to carry out in a robust way. This is one of the advantages of not using an ITR for assessing forward-looking alignment.
- Recommendations 12, 13, 14, 15: We agree with the recommendations on GHG coverage and data.
- Recommendation 16: We agree that target setting cannot solely be used to assess forward-looking alignment. We note and recommend the data points listed on page 40 of the consultation as factors to consider in assessing a company's forward-looking alignment potential, which align closely to the CA100+ Benchmark. As noted in table 4 of the consultation, the quantitative calculation and aggregation methods all have significant drawbacks, and therefore a criteria based on capex plans and decarbonisation strategies is important to evaluate the

credibility of likely alignment with a relevant forward-looking, science-based target. Necessarily, it is hard to compare and aggregate the content of such components as a score, which is why IIGCC has adopted the approach to assessing and categorising alignment in a way which can be aggregated at portfolio level in the NZIF.

- Recommendation 17: In terms of assessing company targets, reflecting the emissions reductions required on a cumulative (carbon budget) approach is relevant.
- Recommendations 18, 19, 20, 21, 22: Given the ongoing challenges recognised in the paper and these recommendations, we do not necessarily consider that the optimal goal should be an ITR, which we still believe fails three of the criteria set out (applicability, transparency, incentive optimality). In the short term, therefore, IIGCC does not consider that a single numeric portfolio ITR should be used, given the methodological challenges and due to the fact that a single metric may not drive impact and could result in unintended consequences. However, we recognise that our members require a suite of tools to align their portfolios with net zero, and that ITR metrics could have value in future as a communication tool and lever for engagement. Over time, the guidance set out in the technical supplement, the refinement of the guidance, and iterations on methodologies by providers should help to improve the applicability, transparency and incentive optimality of these metrics. In addition, we believe that the criteria established under NZIF for assessing companies' alignment with net zero will help to drive demand for the data that could inform ITRs in future. We would welcome the opportunity to engage further with the TCFD on this issue as it considers how the forward-looking alignment of portfolios can most effectively be achieved.

Proposed guidance on climate-related targets

Question 52: How useful is it to your organization for preparers to disclose quantitative targets across cross-industry, climate-related metrics?

Cross-industry, climate-related metrics	Not at all useful	Not very useful	Somewhat useful	Very useful
Absolute Scope 1 and 2 GHG emissions				X
Relevant, material categories of Absolute Scope 3 GHG emissions				X
Shadow/internal carbon price(s)				X
Proportion of assets and/or operating, investing, or financing activities materially exposed to physical risks, based on key categories of commonly accepted risks				X
Proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks, based on key categories of commonly accepted risks				X
Proportion of assets and/or operating, investing, or financing activities aligned toward climate-related opportunities, based on key categories of commonly accepted opportunities				X

Amount of senior management remuneration impacted by climate considerations			X	
Amount of expenditure or capital investment deployed toward climate risks and opportunities				X

Question 53: Please provide any additional comments you have on the TCFD proposed guidance on climate-related targets.

While the consultation acknowledges the need for targets to be quantified and granular, the guidance provides little detail on the specific information companies should be disclosing in relation to climate-related targets, as well as suitable methodologies for developing these targets. In line with previous responses, IIGCC recommends that companies should also disclose quantitative net zero targets in a standardised format and against more specific, granular criteria, including the indicators established by the CA100+ Benchmark. This should include long-term (2036-2050), medium-term (2026-2035) and short-term (up to 2025) targets for reducing GHG emissions on a clearly defined scope of emissions; a clear decarbonisation strategy for meeting long and medium-term GHG reduction targets (including commitments to ‘green revenues’ from low carbon products and services); and the alignment of capital expenditure with long-term emissions reduction targets.

The CA100+ Benchmark indicators support investors’ assessments of current and forward-looking alignment criteria of their holdings under the NZIF (see response to Question 42, key criteria for target setting). Investors should set targets to increase the proportion of their assets that are net zero or aligned to a net zero pathway over time and undertake a set of actions that will drive improved performance at the asset-level and real economy emissions reductions in line with net zero. For more information, see the [CA100+ Benchmark](#).

For investors aligning portfolios to the goals of the Paris Agreement and net zero emissions, we recommend the metrics and targets set out in the PAII’s [NZIF](#).

In addition, the London Stock Exchange Group has developed a compact template that companies can use to disclose climate-related targets. The template aligns with the TCFD recommendations and leverages data that many companies will already be disclosing (e.g. through CDP). We recommend that companies should report in line with the template to promote a more standardised approach to climate target disclosures.

Proposed guidance on climate-related transition plans

Question 62: How useful are climate-related metrics for structuring and tracking progress of a transition plan?

	Not at all useful	Not very useful	Somewhat useful	Very useful	I'm not sure
Cross-industry					
Absolute Scope 1 and 2 GHG emissions				X	
Relevant, material categories of Absolute Scope 3 GHG emissions				X	
Shadow/internal carbon price(s)				X	
Proportion of assets and/or operating, investing, or financing activities materially exposed to physical risks, based on key categories of commonly accepted risks				X	
Proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks, based on key categories of commonly accepted risks				X	
Proportion of assets and/or operating, investing, or financing activities aligned toward climate-related opportunities, based on key categories of commonly accepted opportunities				X	
Amount of senior management remuneration impacted by climate considerations			X		
Amount of expenditure or capital investment deployed toward climate risks and opportunities				X	
Financial sector					
Financed emissions and/or WACI					X
Portfolio alignment metric					X

Question 63: Is there anything additional you would like to tell us about your responses above?

IIGCC believes that transition plans should be developed within the overarching TCFD framework, and that the proposed climate-related metrics provide a useful basis for assessing how companies plan to achieve climate-related targets. However, as highlighted previously, the high-level nature of the proposed metrics, and the limited specific guidance on information to be disclosed regarding climate-related targets, undermines investors' ability to evaluate company ambition and action in addressing climate change. In line with the core asks established by CA100+, the formation of comprehensive business strategies that fully align with the goals of the Paris Agreement and reaching net-zero emissions by 2050 or sooner – and supported by Paris-aligned accounts - should be considered a critical component of a credible transition plan, particularly for

companies operating in high impact sectors. To this end, comprehensive net zero planning disclosures should at the least include the elements laid out below, based on the TCFD recommendations and using the CA100+ Benchmark indicators as core metrics, as well as drawing on the expectations set out in IIGCC's Investor Expectations paper on Paris-aligned accounts:

TCFD governance pillar:

- **Climate Governance:** Whether a company has established clear oversight of net zero transition planning and links executive remuneration to delivering the core net zero GHG targets (CA100+ Indicator 8).
- **Climate Policy Engagement:** Recognising the importance of policy in the net zero transition, how the company will ensure direct and indirect lobbying activities support the objective of achieving net zero (CA100+ Indicator 7).
- **Just Transition:** Whether the company has assessed and developed measures to prepare for the impacts from transitioning to a lower-carbon business model on its workers and communities (CA100+ Indicator 9).

TCFD strategy pillar:

- **Commitment:** Whether a clear commitment has been made to achieve net zero emissions by 2050 or sooner across all material GHG emissions (scope 1, 2 and material scope 3) (CA100+ Indicator 1). Companies should explicitly include a commitment that, to the best of the companies' abilities, their strategy and methodology are aligned with the best available science and a 1.5°C temperature rise scenario. This should translate into appropriate short-, medium- and long-term targets.
- **Decarbonisation Strategy:** Whether a quantified description has been provided setting out the measures that will be deployed to deliver the company net zero commitment and targets (CA100+ Indicator 5). CA100+ indicator 5 includes a sub-indicator for assessing whether companies headquartered in the European Union have set green revenue targets, aligned with the EU Taxonomy criteria for turnover (5.2b).
- **Scenario Analysis:** Whether the company uses both 1.5 °C and a 'worst case' scenario to analyse and test its strategic and operational resilience (CA100+ Indicator 10). This should include their transition and physical risks, how they mitigate and adapt for those risks, and what the operational and financial accounts impacts are.

TCFD risk management pillar:

- Capital Allocation Alignment: Whether an assessment of the consistency of capital expenditures with achieving net zero emissions by 2050 has been carried out (CA100+ Indicator 6). CA100+ indicator 6 includes a sub-indicator for assessing whether capital alignment metrics have been provided (6.2b).

TCFD metrics and targets pillar:

- GHG Targets: Whether a company has appropriate short, medium, and long term GHG targets (Scope 1, 2 and material Scope 3) (to meet CA100+ Indicators 2-4).

In addition, we recommended that companies provide enhanced corporate disclosure in line with the sector-specific Global Investor Coalition on Climate Change (GIC) [Investor Expectations on Climate Change guidelines](#) (where applicable).

We also recommend that companies publish Paris-aligned accounts that incorporate material climate-related impacts and the transition to net zero into financial statements. Paris-aligned accounts are essential in providing investors with the information they need to determine the credibility of transition plans and deploy capital in a way that is consistent with the Paris Agreement. To meet expectations for Paris-alignment, companies should make the five disclosures outlined in IIGCC's Investor Expectations paper on Paris-aligned accounts, as outlined above in our response to Q33.

For investors, IIGCC would highlight the recent publication of the Investor Agenda's [Expectations for Investor Climate Action Plans](#), which sets out key elements of what could be considered 'transition plans' for investors at all levels of ambition. Additionally, investors seeking to align their portfolios with net zero objectives should set out these transparent climate action plans which outline how they intend to take forward action relevant to alignment, in line with the more detailed components of the NZIF. In order to support these disclosures, investors are recommended to report information in line with the four pillars of the TCFD framework – see page 23 of NZIF, which should be considered as key elements for disclosure of a net zero transition plan.

Question 64: For what types of organizations should TCFD recommend disclosure of a transition plan (as defined in Strategy Recommended Disclosure c)? Select all that apply.

- a. If an organization operates in a jurisdiction with an emissions reduction commitment

- [IIGCC response]** b. If an organization has made an emissions reduction commitment
- c. If an organization seeks to meet emissions reduction expectations from financial market participants
 - d. None of the above
 - e. Other (please specify): _____

Question 65: Is there anything additional you would like to tell us about your response above?

While jurisdiction-level emissions reduction commitments are important for investors, we do not believe they should be a decisive factor in determining whether companies should publish a transition plan. More important is the need for clarity on how companies themselves intend to transition towards a net zero economy. IIGCC believes that it is good practice for all companies to develop and implement transition plans, but particularly for companies operating in high impact sectors. For example, the CA100+ initiative is focused on engaging with 167 companies that are key to driving the global net zero emissions transition, accounting for over 80 percent of corporate industrial emissions. Companies should also be cognisant of the need to manage and account for physical risks when developing transition plans, particularly when assets, activities and supply chains are concentrated in vulnerable geographic areas.

Similarly, all investors should set out a climate action plan (see above), which should have more specific disclosure expectations if the investor is aligning to a specific emissions reduction goal, such as net zero emissions (see information on NZIF above)

Question 66: How helpful would it be for organizations to have more guidance related to disclosure of climate adaptation aspects of their strategy?

- a. Very helpful
- [IIGCC response]** b. Moderately helpful
- c. Not helpful
 - d. I'm not sure

Question 67: Please provide any additional comments you have on the TCFD proposed guidance on climate-related transition plans.

IIGCC believes that it is important to promote both the mitigation and adaptation components of investor and corporate climate change strategies, and we therefore welcome TCFD’s consideration of climate adaptation in the consultation. Following guidance produced in 2020 outlining how investors can understand and manage physical climate risk and opportunity in portfolios, IIGCC is currently working with investors to develop a set of expectations of companies in relation to physical climate risk, opportunity, and resilience. IIGCC would welcome the development of high-level guidance and principles in relation to adaptation and resilience, that would enable companies and investors to implement these components as part of their wider climate-related strategy in a way that is appropriate for their organisations. IIGCC believes that investors should take action to increase resilience to physical climate hazard impacts across the four TCFD pillars, but in order to support these actions, additional clarity is needed on key areas such as the use of scenario analysis and the development of risk, opportunity, and impact metrics. Additional work by the TCFD to provide guidance on these critical areas could help drive the industry forward.

In the same way that Paris-alignment should promote emissions reductions in the real economy, IIGCC advocates for investors and companies to take action to manage physical risk in a way that creates resilience benefits for wider society. A number of leading institutions are undertaking work in this space, including major development banks, and IIGCC’s members are also continuing to work on building the investor response to adaptation. We would be happy to collaborate in this area going forward.