IIGCC
Institutional Investors Group on Climate Change

TOWARDS EFFECTIVE CLIMATE DISCLOSURE

IIGCC's response to the FSB Taskforce on Climate-Related Financial Disclosure's consultation on its draft recommendations.

Executive summary

On 14 December 2016, the G20 Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) issued its draft recommendations on climate-related financial disclosures and launched a 60-day public consultation that closed on 12 February 2017.

In a formal response to this consultation, developed in discussion with members, IIGCC welcomes the critical work led by the TCFD, recognising it represents an important step forward in the harmonisation and wider adoption of greater climate-related disclosure by companies and financial actors.

IIGCC endorses the TCFD's seven principles for effective disclosure of climate-related risks and opportunities as a means to improve the reporting of reliable climate information in financial filings, offering a more comprehensive view to investors and other stakeholders.

IIGCC believes the TCFD's recommendations – structured around the four core elements of governance, strategy, risk management, and metrics/targets – represent a *vital* step forward in global efforts to drive harmonisation of climate-related disclosure by organisations already engaged in such activities and the adoption of such practices by many more companies with no such experience to date.

While climate-disclosures are *already* mandatory in some jurisdictions, we emphasise these requirements are not always well understood or routinely complied with. IIGCC therefore recommends that the TCFD ensures its final report makes explicit precisely where companies must *already* disclose climate-related financial risks.

IIGCC welcomes the TCFD's 'supplemental guidance' for certain sectors (prioritised to reflect the carbon intensity of operations or products) and suggests these offer a solid starting point towards more coherent climate disclosure.

However, we warn that the TCFD's current recommendations relating to the standardisation and comparability of data (including for scenarios) are not yet strong enough. As it stands, the proposed framework will leave it up to each organisation to select the metrics they want to use to assess climate-risks and opportunities. This can work against consistency in financial filings over time, hindering comparability, and may encourage companies to evade robust disclosure until specific reporting metrics are required by financial regulators.

IIGCC calls for several key reinforcements to the TCFD recommendations on corporate disclosure:

- *Materiality:* Companies should be tasked to disclose which risks/opportunities they have identified as financially material *and* those that they consider immaterial despite being identified as potentially material by investors, regulators or other key stakeholders.

- *Three additional disclosures* for the framework: board-level expertise on climate risk; whether (or not) remuneration at board and management level reflects climate-related performance; and the processes
- used by the board member responsible for climate policy to ensure consistency between public policy positions adopted by the company and any trade associations to which it also belongs.
- *Green metrics*: the narrative around disclosure about 'risk' (e.g. carbon emissions data) – should be balanced within the framework by addition of disclosure requirements related to 'opportunity'. e.g. revenues from 'green' products that help mitigate climate change.
- *Scope 3 emissions*: Companies should have to disclose these especially in the energy, agricultural products, mining, and transportation sectors.
- *Non-financial sector groupings* (of companies): should be narrowed to more closely reflect levels of risk exposure. For example, companies as diverse as a mining company and a large real estate owner (with scope 1&2 emissions that may vary by an order of magnitude) should not fall into a single grouping for buildings and materials.
- *Definitions* must be developed in detail by sector-specific experts (under the umbrella of the TCFD or an equivalent body) for what constitutes a short, medium and long-term horizon for each sector

IIGCC considers scenario analysis an important form of risk assessment and calls for a standardised 'best practice' approach employing a two-degree scenario with commonly determined (and disclosed) assumptions / procedures to help normalise the use of such analyses and improve the comparability of the outcomes and costs they show.

IIGCC acknowledges the TCFDs recommendations will also focus investor attention on the need to be more transparent *themselves* about how they address climate risk across their portfolios. Since the quality of disclosure by investee companies determines the quality of disclosure by investors, we stress that the *number one requirement* for asset owners and managers to develop an effective disclosure strategy is for them to have more complete, meaningful, reliable and consistent data across companies and sectors. We also call for the TCFD's guidance for investors – currently weighted toward equities – to cover more asset classes. In addition, information on an investor's engagement work with investees on climate change issues can be an important part of climate disclosure.

It is critical to international efforts to curb the risk of dangerous climate change that the TCFD's final recommendations are *fully* implemented. IIGCC therefore urges the G20 to show leadership on this agenda during the German 2017 presidency on the implementation phase of the recommendations as well as the evolution of climate disclosures going forward. The G20 could, for example, task a designated body to oversee and monitor implementation of the TCFD's recommendations and to develop them further as methodologies, metrics and practices evolve as part of global efforts to fully implement the Paris Agreement and meet the climate challenge.

All Sector Recommendations and Guidance

The Task Force structured its recommendations around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets (see page 16 of the TCFD report). The Task Force believes it is important to understand the financial and strategic implications associated with climate-related risks and opportunities on organizations as well as the governance and risk management context in which organizations operate.

Q3a How useful are the Task Force's recommendations and guidance for all sectors in preparing disclosures about the potential financial impacts of climate-related risks and opportunities?

Very useful	**5**
Quite useful	4
Neither/nor	3
Not very useful	2
Not useful at all	1
Don't know	97

Q3b Please provide more detail on your response in the box below:

IIGCC welcomes the report of the TCFD and its recommendations around four thematic areas. The overall framework and the detailed guidance for all sectors provide an important step forward in the harmonisation and more general adoption of climate-related disclosure by companies and financial actors alike.

We also endorse the TCFD's seven principles for effective disclosures and encourage both companies and investors to use them when disclosing climate risks and opportunities.

The recommendations generally respond to investors' needs for assessing companies' exposure to climate risks. They set a framework in line with financial reporting rules in various jurisdictions providing an extra layer of reliability to the data communicated, while allowing companies to provide a holistic and more comprehensive view to investors and other stakeholders.

The recommendations will be useful for companies with extensive experience providing climate risk disclosures, but especially for companies with limited or no experience doing so.

For companies with extensive experience, the recommendations provide a framework, consistent with financial reporting rules in various jurisdictions that any company can use when integrating climate information into financial filings. For companies with limited experience with climate disclosure, the TCFD's guidance provides clear explanations about how climate change can pose financial risks and opportunities in various sectors.

The quality of investor disclosure is highly dependent upon the quality of disclosure by investee companies. To ensure effective disclosure at the asset owner/manager level, strong and comparable disclosures are required at the investee company level. Until this is the case, it will be challenging to assess risk at the listed entity level. Further standardisation of methodology for assessing risk and opportunity by companies (including for scenarios) will be required for effective aggregation at asset owner/manager level.

Climate-disclosures are already mandatory in some jurisdictions. The TCFD report should make clear that many companies are already required under existing laws in various locations to disclose climate-related financial risks, although this appears to be poorly understood or complied with.

There are a few areas where we believe the recommendations could be reinforced:

- **The language and metrics are geared more towards risk than opportunity (e.g. carbon emissions data is typically used as a risk metric). IIGCC would welcome strengthening the narrative disclosure around** opportunity and the specification of further metrics related to opportunities, for example green revenues (revenues from products that help to mitigate climate change).

- More guidance could be provided for different asset classes. Currently the guidance is weighted toward equities.
- We agree with the need to describe the actual and potential impacts of climate–related risks and opportunities across "the relevant short-, medium-, and long-term horizons, taking into consideration the useful life of the organization's assets or infrastructure".

However, this risks maintaining the status quo of poor reporting as many risks and opportunities have not been identified as financially material and therefore the TCFD's recommendations may not result in additional disclosure. Furthermore, what time spans need to be considered might vary greatly amongst organisations. IIGCC therefore recommends that companies are asked to disclose both which risks and opportunities they have identified as financially material and those that they might have determined as being immaterial but have been identified as potentially material by investors, regulators or other key stakeholders. The recommendations might be complemented in future, for example, with a short-list of key risks/opportunities by sector built and adapted from tables A1 and A2 (p.11 & 12). The recommendations could also propose what the short, medium and long-term horizons should be for each sector. These could be developed in detail by sector-specific experts as part of, or under the umbrella of the TCFD or an equivalent body.

Supplemental Guidance

Q3c How useful is the Task Force's supplemental guidance for certain sectors in preparing disclosures about the potential financial impacts of climate-related risks and opportunities? Please see the TCFD Annex for supplemental guidance.

Very useful	5
Quite useful	**4**
Neither/nor	3
Not very useful	2
Not useful at all	1
Don't know	97
Not applicable	96

Q3d Please provide more detail on your response in the box below:

IIGCC considers the sector supplemental guidance to be a useful and solid starting point towards more coherent climate disclosure. We support the approach taken by the TCFD to develop additional supplementary guidance for key industry sectors. We note that TCFD members have carefully considered which sectors are potentially and presently most affected by climate risk because of carbon intensity of operations or products, as well as the unique and distinct role of the financial sector in addressing climate change.

It is worth remembering though that reporting by asset owners and asset managers depends on effective disclosure by companies. The guidelines and recommendations leave ample room for selecting metrics. Further guidance on methodological standardisation and metrics for assessing risk and opportunity by companies (including for scenarios) is needed to ensure comparability and consistency. Until strong and comparable disclosures are fully mandatory or a reality, risk assessment at the listed entity level will continue to be extremely challenging; and effective aggregation at asset owner or manager level inadequate.

Investors' own disclosure will inevitably fall short.

Beyond methodological barriers, smaller asset owners and managers face additional barriers given their smaller capabilities to meet the financial sector guidance. Their reporting limits should be acknowledged.

IIGCC has two specific comments on the non-financial sector supplemental guidance.

Firstly, the groupings of companies within the non-financial sector groupings are broad. As disclosure users we anticipate that the risks and opportunities (and therefore the corresponding disclosure) will be significantly different for companies in different industries. This is particularly evident for the Materials and Buildings grouping. For example, the scope 1+2 emissions of major mining /chemicals/construction and materials companies typically range from 20 million to 190 million tCO2e per year as compared to companies in the Real Estate Management and Development sectors where the most carbon generating company listed on the FTSE 100, Land Securities, generates less than 100,000 tCO2e. Equally, we anticipate that the sectors within the agriculture grouping will face significantly different risks.

Secondly, IIGCC recommends the inclusion of three climate disclosures as part of the non-financial sectors recommendations. Please see q.5 for further detail.

Organizational Decision Making

Q4a If organizations disclose the recommended information (or information consistent with the Task Force's recommendations), how useful will that information be to your organization in making decisions (e.g., investment, lending, and insurance underwriting decisions)?

Very useful	5
Quite useful	4
Neither/nor	3
Not very useful	2
Not useful at all	1
Don't know	97

Q4b Please provide more detail on your response in the box below:

Asset owners and managers' investment decisions could greatly benefit if the guidelines and recommendations were fully adopted by companies across most geographies. Data provided needs to be reliable, comparable, and for relevant metrics across sectors.

We note specifically that, if companies disclose information consistent with the TCFD recommendations, this will be very useful for corporate engagement decisions. The reporting may not be as useful as desired for investment decisions, however, because the TCFD recommendations do not sufficiently emphasize comparability of data. (The exception is in the case where the TCFD recommended a single set of reporting metrics: use of the GHG Protocol for calculating and disclosing Scope 1, 2 and, where applicable, 3 greenhouse gas emissions).

Additional Disclosures

Q5 What other climate-related financial disclosures would you find useful that are not currently included in the Task Force's recommendations?

We would encourage the TCFD to include the following climate disclosures as recommendations for the non-financial sector guidance.

- Board expertise: The level of expertise on climate risk at board level, and/or the ability to access climate expertise outside the company to inform the board.
- Remuneration link: IIGCC recommends that disclosure is sought on whether the Board and management have climate-related performance metrics tied to remuneration. In addition, we recommend the inclusion of a request for narrative disclosure on how climate change is considered as part of the remuneration strategy, for example, how climate change is factored into peer group selection. IIGCC notes that the CDP requests remuneration information in its current disclosure survey.
- Governance and disclosure of public policy positions and activity: Given the importance of legislation in addressing climate change, IIGCC recommends that the TCFD's disclosure recommendation requires that the processes used by the Board and management to ensure consistent public policy positions are adopted by companies and the trade associations to which they belong. Information on private lobbying activity should be disclosed, as well as the Board member ultimately responsible for climate policy.

Scenario Analysis

Q6 The Task Force recommends organizations describe how their strategies are likely to perform under various climate-related scenarios, including a 2°C scenario (see page 16 of the TCFD report). How useful is a description of potential performance across a range of scenarios to understanding climate-related impacts on an organization's businesses, strategy, and financial planning?

Very useful	5
Quite useful	**4**
Neither/nor	3
Not very useful	2
Not useful at all	1
Don't know	97

Q7 Please elaborate on your response above:

IIGCC agrees that scenario analysis is a valid form of risk assessment that is used in different sectors. The scenario recommendations at company level provide a level of flexibility which might be desirable to render the exercise dynamic for internal strategizing so it can be adapted to a company's assumptions and perspectives. However, this makes a comparison and aggregation difficult for investors.

A more standardised scenario approach with commonly determined assumptions and procedures would help comparability. We acknowledge the difficulties inherent in standardising scenario analysis. Yet, more guidance – more granularity and consensus- would help normalise the use of relevant scenario analyses.

There are multiple 2°C scenarios. Some scenarios, such as those provided by IPCC, might be too technical, for companies to translate into relevant parameters for their business. However, no reporting standard exists to govern disclosure of the methodology or outcomes of different scenarios. Development of such a reporting standard would help with understanding of outcomes, comparability between companies, and cost.

A two-degree scenario should be used as standard in reporting exercises. We believe that disclosing the full methodology that sets out assumption of scenarios is critical to assess the company's strategy and financial plans.

Q8 **The Task Force recognizes that there are challenges around disclosing sufficient information to allow a better understanding of the robustness of an organization's strategy and financial plans under different plausible climate-related scenarios. Some challenges may arise from unfamiliarity with scenario methodologies and metrics, insufficient practice standards or cost. What do you view as effective measures to address potential challenges around conducting scenario analysis and disclosing the recommended information?**

Establish better practice standards around conducting and disclosing scenario analyses so that there are clearer rules of the road	1
Additional methodologies and tools should be developed for use by organizations to enable more effective scenario analysis	2
Further work by industry trade groups and disclosure users on critical elements to be disclosed is needed to help overcome concerns that some information may be commercially sensitive	3

Q9 **Please provide more detail on your first choice in the box below:**

IIGCC believes that disclosing a full methodology that sets out assumption of scenarios pragmatically but which is also comparable to other company scenarios is essential. This will take time to emerge. A pragmatic way to comparably map climate risk and opportunity in portfolios and at investee company level will require a best practice standard. Standardisation will have the result of reducing cost, which is a serious barrier.

Metrics and Targets

Q10a **The Task Force is recommending that organizations disclose the metrics they use to assess climate-related risks and opportunities in line with their strategy and risk management process. For certain sectors, the report provides some illustrative examples of metrics to help organizations consider the types of metrics they might want to consider. How useful are the illustrative examples of metrics and targets?**

Very useful	**5**
Quite useful	4
Neither/nor	3
Not very useful	2
Not useful at all	1
Don't know	97

Q10b Please provide more detail on your response in the box below:

The report leaves it up to each organisation to select the metrics they want to use to assess climate-risks and opportunities. This could lead to a continued or increased lack of consistency in the climate reporting metrics companies use in financial filings, hindering comparability. It could also discourage companies from providing robust disclosure, as some may choose to delay reporting and wait until specific reporting metrics are required or recommended by financial regulators before they discuss climate issues extensively in financial filings.

While we believe we ought to work towards convergence and standardisation as previously mentioned, the disclosure of what metrics have been used will be extremely useful to evaluate the information provided.

IIGCC considers it to be important that the TCFD recommendations:

- Specify disclosure of further metrics related to opportunities, in particular, green revenues (revenues from products that help to mitigate climate change). For example, percentage of green revenue coming from new products or services.
- Emphasise the need to disclose scope 3 emissions for energy, agricultural products (particularly with regard to deforestation), mining, and transportation sectors.
- Standardise Scope 3 reporting: In order to fully understand climate related risks and opportunities, we would like to see the development of a standard covering at least 'Scope 3, purchased goods' and 'Scope 3, use of sold products'. Investors could then better understand the upstream (supply chain) risks and the downstream (markets and products) risks and opportunities – both of which are exposed to the development of climate regulation including Nationally Determined Contributions. For downstream (Scope 3, use of sold products) companies should describe the assumptions behind their calculations.
- Recommend a breakdown by type of emissions (methane, nitrous oxide, etc.).

For the supplemental guidance IIGCC recommends the consideration of the following metrics:

- Energy – Oil & Gas
    - Average break even oil price for the portfolio
    - Reserves to production ratio
- Energy – Electric Utilities
    - Volume of electricity the company helps its customers to save as a percentage of total electricity sales
    - Average age of plants or productive capital (useful to assess whether there is a chance to renew the stock of capital rapidly)
- Transportation
    - Lifecycle emissions of the manufacturing process (downstream)
    - Ratio of Internal Combustion Engine Vehicles to other advanced vehicles (ZEV, EV, hydrogen, biofuel, etc.)
    - Emissions efficiency of the fleet relative to emissions limits in all applicable jurisdictions
    - For companies in this sector, disclose key metrics by fleet and manufacturing business units/functions

Carbon-related Assets in the Financial Sector

Q11 Part of the Task Force's remit is to develop climate-related disclosures that would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector.

Beyond the metrics included in the Task Force's guidance, and supplemental guidance, what other metrics could be used to measure carbon-related assets in the financial sector?

IIGCC supports further work being undertaken to define and articulate carbon-related assets in the financial sector. We would recommend considering metrics that reflect investors' active engagement and voting activities related to climate change. It is important for investors to send a strong and consistent message to companies about their expectations regarding their strategic and operational response to climate change. Information about an investor's engagement on climate change issues can be an important part of climate disclosure.

The Task Force is recommending that organizations provide key metrics used to measure and manage climate-related risks and opportunities. For example, the Task Force recommends that asset owners (including insurance companies) and asset managers report normalized greenhouse gas emissions (GHG) associated with investments they hold (for each fund, product, and strategy) using available data (see Annex pages 35 and 41).

Q12 Please describe your views on the feasibility of implementing the above recommendation:

IIGCC notes that the feasibility of implementing the recommendations will depend on companies' effective disclosure. Without quality data and information being produced at investee company level, aggregate metrics at product/strategy level may prove cumbersome and inaccurate.

While the TCFD guidance for asset owners focuses on relevant investment strategies (at a total fund or investment strategy or asset class level), for large asset managers who ought to respond to their clients' requests in turn, calculating data for all products and strategies may be complex given the volume of products and strategies. It will also be very challenging for smaller asset managers and asset owners who lack the resources to carry out such analyses.

Finally, some asset managers are business units of larger groups (e.g. asset managers as part of insurance companies or banks). The disclosure recommendations should indicate whether reporting should take place at entity level or business unit level for those investors.

Greenhouse Gas Emissions (GHG) Associated with Investments

Q13a How useful would the disclosure of GHG emissions associated with investments be for economic decision-making purposes (e.g., investing decisions)?

Very useful	5
Quite useful	**4**
Neither/nor	3
Not very useful	2
Not useful at all	1
Don't know	97

Q13b Please provide more detail on your response in the box below:

GCC recommends that a balance between GHG emissions associated with investments and the avoided emissions/positive impacts (related to "the use of sold products") is maintained as part of disclosure recommendations on GHG emissions associated with investments. Current approaches vary and little standardisation has been achieved on how to measure (including the baseline/benchmark used) avoided emissions. We would welcome greater attention and debate on the subject. **Whilst carbon footprinting has been a useful tool for investors disclosing information on climate change, the TCFD should also note the limitations of using carbon footprinting. For example, it does not describe forward looking risk (e.g. carbon footprinting of reserves or future production may be more valuable indicators). As investors we are also interested in the impact of forward looking plans on carbon intensity. Further, carbon footprinting is no guarantee for carbon risk management. It is only indicative and should not dictate a decarbonisation strategy. IIGCC recommends companies provide information on the lifetime GHG emissions expected in relation to investments made as part of their annual or medium term plan.**

Remuneration

Q14 Which types of organizations should describe how performance and remuneration take climate-related issues into consideration?

The Energy Group as recommended by the Task Force	1
Other non-financial sector organizations (please specify) ALL non-financial sector organizations	**2**
Financial sector organizations (please specify)	3
None	4

Adoption and Implementation

Q15 What do you view as the potential difficulties to implementing the disclosures?

The information requested could be commercially sensitive	**1**
The time and cost of collecting the information	**2**
Climate-related disclosure is not part of our current regulatory requirements	**3**
Lack of experience with concepts and methodology	**4**
Multiple climate-related reporting frameworks currently exist	**5**
We do not anticipate any difficulties related to implementing the disclosures	6
Other (please specify)	9

Q16 What, drivers if any, do you think would encourage you to adopt the recommendations?

Requests from investors to disclose	**1**
Requests from clients or beneficiaries	**2**
Reputational benefits and goodwill from adoption	**3**
Inquiries or requests from debt or equity analysts	**4**
Adoption by industry peers	**5**
Other (please specify)	94
None of the above	98

Q17 What support or actions would be helpful to you in implementing the disclosures within the next two years?

The number one driver for asset owners and managers to implement the disclosures would be to have complete, meaningful, reliable and consistent data across companies and sectors. The G20 could and should play a key role in making solid and comparable data available, but stock exchanges and central banks could really contribute to advancing climate-related disclosures.

Improvement on corporations' physical climate risk disclosure, for instance, would significantly strengthen the insurance sector's key metrics and Willis Towers Watson's '1 in 100' initiative. The TCFD and regulators could encourage companies to disclose how their operations and supply chains could be exposed to the maximum probable annual loss from an average annual disaster, from a 1 in 20 year disaster and from a 1 in 100 year disaster. Critical infrastructure providers are required under the UK Climate Change Act to assess and report on their physical risks and how other companies/sectors could be affected. Investors would greatly benefit if mandatory requirements such as the former were standardised across G20 countries and beyond.

Further development, refinement and standardised adoption of methodologies and metrics for developing, for instance, scenario analysis would be very helpful.

Effort is also needed to develop methodologies for companies to forecast and disclose their future carbon emissions and carbon costs. This could draw on some countries' existing regulatory requirements that may include future carbon emission estimates for when oil and gas or power companies are seeking regulatory permission to expand or build a new facility. Such facility level data could be aggregated and presented with some sensitivity analyses of future production levels. The benefits of future carbon emission projections outweigh company confidentiality concerns.

Q18 The Task Force's recommendations are focused on disclosure in financial filings; within what timeframe would your organization be willing to implement the recommendations in financial filings?

We already report these disclosures in financial filings	1
In the next one to two years	2
In three to five years	3
We do not intend to implement the recommendations	4
Do not know (please explain)	**9**

Explanation: "EFAMA is an industry association with many different members. Some are also ready attempting to disclose their carbon footprint, so they may be ready to comply very soon. Others will need more time."

Additional Feedback

Q19 What additional feedback you would like to provide the Task Force on the recommendations?

IIGCC would like to stress the importance of the recommendations being fully adopted by all G20 countries and beyond. The leadership of the G20 is critical to improving climate-disclosure and advancing the climate agenda.

We encourage the G20, and the FSB, to continue leading in the implementation phase of the recommendations as well as in the evolution of climate disclosures. The G20 could designate a body to oversee and monitor implementation.

The report does not endorse specific metrics. Whilst we understand that in some cases more work needs to be done in order to obtain the necessary degree of consensus and standardisation for specific metrics to be agreed and adopted, we would welcome a G20-designated body (backed by the FSB) to be in charge of developing further the recommendations as methodologies, metrics and practices evolve.

Thank you for completing this consultation. Your contribution is very much appreciated. If the Taskforce or PwC can contact you to clarify any of your answers, please click here.

YES