

Mr Michael Bloomberg  
Chairman FSB TCFD  
Founder, Bloomberg LP

Dear Mr Chairman

**Re: UNEP FI response to the Public Consultation of the FSB's Task Force on Climate-Related Financial Disclosures (TCFD)**

**ABOUT UNEP FINANCE INITIATIVE:** (UNEP FI) is a partnership between UN Environment and the global financial sector created in the context of the 1992 Earth Summit with a mission to promote sustainable finance. Over 200 financial institutions, including banks, insurers and investors, work with UNEP to understand today's environmental challenges, why they matter to finance, and how to actively participate in addressing them. UNEP FI's work also includes a strong focus on policy – by fomenting country-level dialogues between finance practitioners, supervisors, regulators and policy-makers, and, at the international level, by promoting financial sector involvement in processes such as the global climate negotiations.

**UNEP FI's POSITION:** Financial disclosure has for many decades provided the bedrock for the smooth functioning of markets, for facilitating informed commercial relationships, and for enabling financial intermediaries to perform their key function: the allocation of capital towards its best use. Given the unprecedented nature and deep ramifications of climate change across social, physical, regulatory and technological domains, it is critical that the resulting risks and opportunities be considered in risk pricing and capital allocation practice. The climate disclosure regime required for that – with a satisfactory level of sophistication, depth, breadth and standardisation - is still lacking. The TCFD, and its draft recommendations, is a determined step in the required direction.

We encourage the Task Force to consider the inputs below in finalizing the recommendations and call on the Financial Stability Board and the G20 to endorse publicly the final report.

**KEY UNEP FI RECOMMENDATIONS:**

The following recommendations are based on consultations with financial institutions in the UNEP FI membership as well as on UNEP FI's own experience, and lessons learnt, in the area of environmental disclosures:

- **More granularity:** The commercial risks and opportunities related to climate change, as well as the indicators through which they can be measured and conveyed, will differ, firstly between the various sectors in the economy, and secondly, between the various industries in the finance sector. Responding to such differences through an equally differentiated set of supplemental guidelines, therefore, is the right approach and welcomed by UNEP FI. The top-down recommendations provided in the report, including in its supplemental sections, however, remain fairly generic and will not be able to fully guide preparers of disclosures, specially financial institutions, on the specifics of how to disclose. Acknowledging that doing so would be outside the scope and means of this first report, UNEP FI encourages the TCFD to work, in the coming months, with leading organizations in each industry, to develop more

detailed, and bottom-up, but still standardised, guidelines - including qualitative and quantitative indicators.

- **Standardising scenarios:** Scenario analysis is key for assessment of climate risk, given the unprecedentedness of the phenomenon and that past developments cannot easily be extrapolated to the future. We welcome the emphasis placed by the TCFD on scenario analysis as the central assessment technique, and we endorse the requirement that preparers of disclosures shall report on the key inputs, parameters, and assumptions used in scenario-building. In addition, however, we urge the TCFD to recommend that preparers of disclosures be required to use common, standardised and authoritative scenarios, based on previously agreed-on, common inputs, parameters, and assumptions. Standardised scenarios are key in ensuring that the use of scenario analysis and stress-testing yields disclosures that are readily comparable between disclosers as well as between disclosures over time.
- **Disclosing impact:** As stated previously, an international, standardized disclosure framework focused on climate-related risks is overdue and the TCFD's work represents a significant step in the required direction. We also welcome the inclusion into the TCFD framework of disclosures related to the uptake of climate-related opportunities. However, UNEP FI thinks that the impact aspect of disclosers' commercial and financial operations is missing and that it should be included in the next and final iteration of the framework, alongside the risk and opportunity dimensions already considered. When disclosing on such impacts disclosers would convey the implications that their current and planned activities have - directly or indirectly – particularly on GHG emissions, and on corresponding decarbonisation trajectories into the future. This would allow assessments of the degree to which business models and financial portfolios are supportive, or inhibitory, of the economic transitions required for world Governments to achieve the objectives stipulated in the Paris Agreement, regardless of financial risk and opportunity. The impact logic is new, but it already is gaining momentum among mainstream financial institutions: On 30th January, for instance, 19 leading banks and investors totaling \$6.6 trillion in assets launched the *Principles for Positive Impact Finance* which provide guidance for financiers and investors to analyse, monitor and disclose the social and environmental impacts of the financial products and services they deliver. We'd deem it synergistic if the climate-specific disclosure framework advanced by the TCFD could, at least in part, reflect these new but important concepts that are emerging at the interface of mainstream financial markets and the environment more broadly.
- **Disclosing political influence:** We join the Principles for Responsible Investment (PRI) and others to also recommend that the Task Force encourages disclosure on political influence activities so that in particular investors have visibility on long-term company alignment with investor interests, as well as disclosure on positive contribution to public policy goals on climate change.
- **'Transition plans':** We join the Principles for Responsible Investment (PRI) and others to recommend that the Task Force explicitly encourage organizations to disclose a transition plan to meet the Paris Agreement outcome of below 2 degrees and ambition for 1.5

degrees. This will enable financial markets, as well as climate-, and industry-regulators, to better understand how well-positioned disclosing organizations are positioned for the low-carbon economic transition. The concept of transition plan disclosure also provides an avenue to measure and convey current and future 'climate impact' as per the point raised further above.

- **Further work on finance sector metrics:** While it is fairly intuitive and straightforward to determine the metric types able to convey climate-related risk information for companies, doing so for finance sector entities, at portfolio level, is a more complex endeavour. Portfolio carbon footprints, as a metric, for instance, are able to convey only an approximate, intuitive, indication of risk exposure and/or alignment with the low-carbon economy. Its usefulness for financial decision-makers is, however, limited because carbon foot-printing provides, firstly, backwards looking data, and because, secondly, it doesn't provide insight into an entity's strategy and risk management. We therefore encourage further research and industry collaboration on methods and key performance indicators for financial institutions to understand, not only their climate-related value at risk, but also, their contribution to reducing emissions in the real economy. Over time, better understanding of such exposures and impacts, of the portfolio-level indicators to measure them, will support high quality disclosure by financial institutions and potentially provide useful input for policymakers seeking to understand the accumulation of climate risks in the overall financial system, as well as the extent to which financial stability might, or not, be threatened.

UNEP FI's detailed responses to the Task Force's consultation, incorporating the above points, have been submitted online on [www.fsb-tcfd.org](http://www.fsb-tcfd.org).

Yours sincerely,



Eric Usher  
Head  
UNEP Finance Initiative

Cc Christian Thimann, UNEP FI Co-Chair and FSB Task Force Vice-Chair