12, July 2021

By email: info@fsb-tcfd.org

Dear Sirs,
Re: Proposed Guidance on Climate-related Metrics, Targets and Transition Plans and Measuring Portfolio Alignment: Technical Supplement

The United Nations Environment Programme - Finance Initiative (UNEP FI) is a strategic public-private partnership between the UN and over 400 global financial institutions. It has established some of the most important sustainability-oriented frameworks within the finance industry, including the Principles for Responsible Investment, the Principles for Sustainable Insurance and the Principles for Responsible Banking. It also convenes leading net zero alliances of banks, insurers and asset owners which form part of the Glasgow Financial Alliance for Net-Zero. Since the issuance of the initial TCFD disclosure guidance, UNEP FI has led pilot programmes for dozens of banks, insurers and institutional investors on climate risk and TCFD disclosures. These programs have convened financial institutions, supervisors, and climate experts with a view to improving climate disclosure practices across the financial sector.

Overview

The UNEP FI applauds the Task Force on Climate-related Financial Disclosures for publishing its *Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans* and *Measuring Portfolio Alignment: Technical Supplement (*'PAT Supplement*')*. These documents make a meaningful contribution to enhancing the clarity and comparability of climate disclosures and at the same time reflect market developments that have taken place since the publication of the 2017 Guidance. We welcome in particular the following:

- More explicit guidance on the types of metrics to be disclosed (climate risk and alignment) and on target setting
- Sound principles for selecting, calculating and communicating metrics
- Cross industry climate-related metrics which will help financial services firms with diverse portfolios obtain an improved overall view of risk
- The expansion of the term 'carbon related assets' (which now extends to assets tied to the four non- financial groups in the TCFD Recommendations)
- The updated guidance on calculating scope 3/financed emissions
- The increased emphasis on forward looking metrics

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- The introduction of disclosure of portfolio alignment and a first steps framework for developing a common understanding of portfolio alignment metrics
- The introduction of transition plans as a component of strategy disclosures

We have a few recommendations and comments that we believe could enhance the current proposals. Our recommendations focus on the areas of portfolio alignment, transition plans, metrics and target setting. Regarding the PAT Supplement, we focus on portfolio alignment options and metrics. Our recommendations and comments are below.

1.Recommendations on '*Proposed Guidance on Climate-related Metrics, Targets and Transition Plans*'

- **Recommendation 1: Portfolio alignment and transition plans**: expressly integrate *1.5 degree/net zero temperature pathways* into both the provisions on portfolio alignment disclosure and disclosed transition plans. In addition, disaggregate references to 1.5-degree pathways from references to 2-degree pathways. This would generate consistency with the broad approach of the Network for Greening the Financial System with its 1.5 scenarios whilst also recognizing the substantial difference between a 1.5-degree pathway and a 2-degree pathway.

- **Recommendation 2: Transition plans**
  - *Scope* - expand the list of recommended organizations who should disclose transition plans. Organizations whose business activities include significant (scope 1, 2, or 3 emissions) or that are materially dependent on carbon-related assets 'should' *also* release transition plans. Such an expansion would better facilitate the objectives behind the transition plan proposals i.e., to adequately price and assess climate risks.

  - *Governance* – in relation to the alignment of transition plan elements with TCFD pillars (table E2, p.52), it would be useful to highlight that resources, skills and training should be put in place to ensure that the board and staff are able to implement, assess and oversee transition plans.

  - *Other comments* - it should be noted that transition plans can also be used to provide accountability mechanisms for owners of climate action and regular review of performance of company against plan. On transition plans more generally, a difficult aspect for financial institutions will be to reconcile detailed disclosures with confidential and proprietary information. Without regulatory expectations for transition plan disclosure and/or options for part of the information to remain confidential, this may present challenges in terms of meeting the objectives behind these transition plan recommendations.

- **Recommendation 3: Metrics**
  - *Materiality* – organisations exceeding a certain threshold (e.g., by reference to balance sheet/net turnover) should not generally be subject to a materiality

threshold for the purpose of the seven core metrics. This would facilitate comparability of risks and opportunities data and provide better visibility of aggregated risks throughout the system as a whole. Firms falling below a certain threshold that are materially exposed to climate risks, should still be required to disclose in line with the TCFD recommendations.

- *Physical risks* - in relation to the physical risk core metrics proposed (i.e., proportion of assets and/or operating, investing, or financial activities materially exposed to physical risks), as everything is exposed to physical risk to some extent, this provision could benefit from the addition of some kind of loss ratio/severity threshold indicator.

- *Expenditure/capital investment metric* – the core metric, 'amount of expenditure or capital investment deployed toward climate risks and opportunities' could better reflect proportionality through referring instead to the size of the portfolio/balance sheet. Such an approach could offer a more meaningful indicator whilst also avoiding unfairly advantaging larger firms.

- *Scope 1-3 emissions* – disclosure of scope 1-3 emissions (particularly scope 3 emissions) should be based on relevance to the sector/activity in question. For example, the Net Zero Banking Alliance has opted to create no hierarchy between scope 1, 2, and 3 emissions (and no ambition necessarily for all scopes to be always included), but instead banks and their clients, focus on whatever combination of scopes are most relevant for the sector/activity at hand. We believe that this is conducive to providing the most relevant information. We also concur with PRI's suggested approach to scope 3 disclosures for other financial and non-financial institutions.

- **Recommendation 4: Target setting**
  - *Transparency* - the target setting principles could benefit from mentioning that targets should be transparent (easily communicated) and aggregable at different organizational levels (e.g., whole of portfolio, entity and divisional levels).

  - *Reviews* - while we welcome the guidance stating that targets should be reviewed 'at least every five years', we think that it would be beneficial if targets were also reviewed whenever significant and material new information/events come to light. An approach of this kind would encourage firms to review targets when e.g., climate tipping points are reached or new insights are brought to light by scientific discoveries or new publications, e.g., the IEA Net Zero by 2050 Roadmap.

  - *Target setting templates* - developing a template for target setting would facilitate comparability of target-related data.

PAT Supplement

Suggested enhancements include:

- We recommend the use of more neutral language in relation to ITR. Specifically, ITR is a useful, though not necessarily more ‘sophisticated’ tool. Its usefulness stems from the aggregation it offers. However, this additional layer of aggregation also introduces uncertainties. Indeed, more translations from input to output do not necessarily mean that the output is more ‘sophisticated’, it is simply more complex, and perhaps as a result, more prone to error or misinterpretation. PAT/TCFD could perhaps also consider advocating for a ‘confidence interval’ and ‘temperature ranges’ rather than a single score to acknowledge these uncertainties.
- We are supportive of using a ‘single benchmark’ or corridor of benchmarks, rather than a ‘warming function’ approach, for the reasons similar to those highlighted above. We also agree on a convergence approach. However, we hope that in future iterations TCFD and PAT can utilize their positions to advocate for more granular sector specific scenarios from credible sources in line with the metrics noted above.
- We would encourage nuance under Judgement 9, as we believe a convergence approach is compatible with absolute reductions, and both should be engaged. We strongly agree that ‘In industries with homogeneous production data, it is preferable to measure intensity in terms of emissions per unit of production’.
- We propose clearly distinguishing the different use cases of the portfolio alignment options and recognizing at this stage it is premature for ITR alone to be used to inform target setting, portfolio allocation and optimization.
- We think a distinction can be made to distinguish decarbonizing portfolios from alignment.
- We recommend the use of both absolute and emission intensity for alignment benchmarks (page 29) to reflect the fact they have different uses - absolute emissions targets are better suited to measuring emissions reductions and progress to net zero and intensity metrics are better suited to comparing a company against a benchmark.

Going forward, we hope that regulators will integrate the finalized TCFD metrics guidance into their regulatory expectations and look forward also to the IFRS developing standards that can help enhance comparisons on a more granular level.

For the purposes of future TCFD Guidance, one possible area for the Task Force to consider in future concerns data collection and use. This is especially the case for data poor sectors and regions as this is a common complaint used by institutions to not conduct diligent analyses.

Should the Task Force have any questions about this response, UNEP FI would be delighted to discuss our perspectives further or answer any related comments or questions.

Sincerely,

Eric Usher

Head, UNEP-FI