

CDSB Response to the TCFD Forward-looking financial sector metrics consultation

27 January 2021
TCFD Secretariat

Via online survey response

Re: Consultation on Forward-looking Financial Sector Metrics

CDSB welcomes the opportunity to offer our written response to the TCFD consultation on forward-looking metrics for the financial sector.

CDSB is an international consortium of nine business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental and climate information ([the CDSB Framework](#)) with the same rigour as financial information. In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems. As the TCFD Secretariat will be aware, the CDSB Framework is fully aligned to the TCFD recommendations.

The disclosure of forward-looking climate-related information is an important element in ensuring that disclosure appropriately communicates trends and factors that are likely to affect an organisation's future performance, position and development. Indeed, the disclosure of forward-looking information is principle seven of the CDSB Framework. Whilst there has been some growth in the disclosure of forward-looking narrative information, the provision of forward-looking, sector specific metrics that link to financial performance is currently limited; CDSB therefore welcomes the efforts of the TCFD Secretariat to address this issue with regards to the Financial Sector. Whilst CDSB's work is sector agnostic and we do not therefore take a view with regards to the appropriacy of individual metrics, which should be decided by relevant sector participants, we have set out in our consultation response our general comments and guidance, drawn from our experiences in working with report preparers on the disclosure of forward-looking metrics, which we hope will be of value to the secretariat in the production of further guidance on this matter.

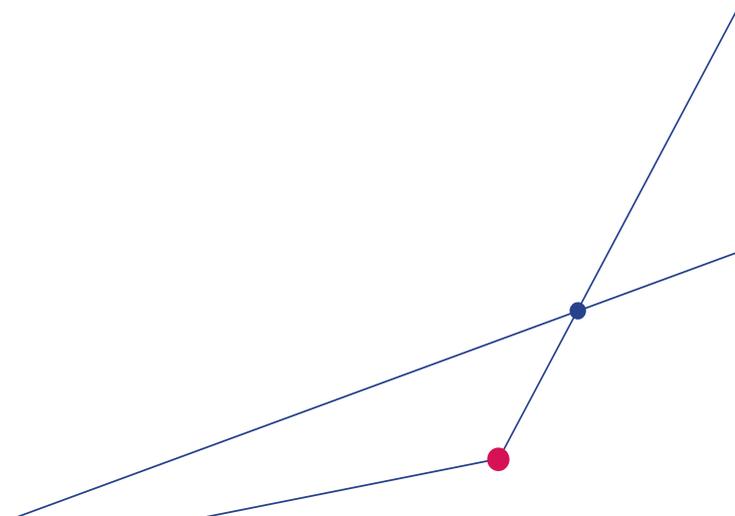
Our comments are intended to be constructive, to support the TCFD Secretariat. Please find our responses to the survey in full below and do not hesitate to contact me, or CDSB's Technical Director, Ravi Abeywardana (ravi.abeywardana@cdsb.net) if we can be of further assistance.

Best Regards,

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Managing Director
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Where is your organization headquartered?

UK

What is your role/position?

Corporate reporting

Which one of the following best describes your organization?

Standard setter or framework

In what way are forward-looking climate-related metrics used within your organization? Check all that apply.

We do not use forward-looking climate-related metrics

Why does your organization not use forward-looking climate-related metrics?

As a framework provider, CDSB is not a report preparer. However, the CDSB Framework and accompanying guidance for companies supports the provision of TCFD-aligned information, inclusive of forward-looking climate-related metrics, within the mainstream corporate report.

How do you currently view disclosure for forward-looking climate-related metrics?

- The benefits *will* outweigh the challenges if there is further standardization of metrics

Is there anything additional you would like to tell us about your response above? If not, please click 'continue' to proceed.

CDSB considers it key for disclosures to look to the future, as well as the past and present, in order to communicate trends and factors likely to affect the organisation's future performance, position and development. Challenging as it may be, companies can no longer avoid considering, quantifying, and reporting on material climate-related matters.

A range of forward-looking information is already embedded in financial reporting in areas such as fair value accounting, impairment testing, the measurement of provisions and the recognition of contingent liabilities. Such forward-looking information is a collection of judgements and estimates, based on the best information available to preparers. Climate risk is another matter that should be considered, like any other material risk to a business. To a degree, preparation of financial reports, and annual reports more generally, will always include a level of uncertainty and in this way the consideration of forward-looking climate-related metrics is not fundamentally different.

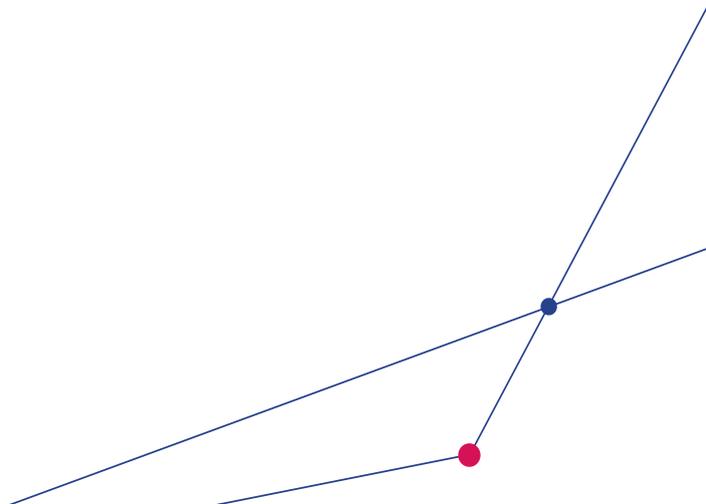
However, it is acknowledged that there are currently a range of proposed metrics for forward-looking climate disclosure, limiting comparability. Further guidance by the TCFD to support the development of standardised, widely adoptable metrics, would therefore be welcome.

How does the lack of reliable or comparable GHG emissions data impact the usefulness of forward-looking metrics as part of financial decisions?

- It's somewhat of a barrier

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Is there anything additional you would like to tell us about your response above? If not, please click 'continue' to proceed.

Currently there is substantive variation in the quality, consistency and comparability of corporate GHG disclosures. For example, research conducted by CDSB in 2020 illustrated that 26% of Europe's largest companies did not provide disclosure on Scope 3 GHG emissions in their mainstream report and 6% did not clearly apply reporting scopes to their emissions data (source: <https://www.cdsb.net/nfrd2020>).

Whilst corporate GHG reporting is increasingly prevalent, as a key input to forward-looking metrics for financial institutions, its quality must be further improved. This can be achieved through the adoption of consistent, mandatory global reporting standards, which should emphasise GHG emissions as a material topic for disclosure by all large organisations.

Which GHG emissions scopes should be covered in an ideal forward-looking methodology for metrics related to emissions? Select all that apply.

- Scope 1
- Scope 2
- Scope 3

Is there anything additional you would like to tell us about your responses above? If not, please click 'continue' to proceed.

As is noted in the TCFD's consultation document, Scope 3 emissions often account for a substantial proportion of a company's total emissions, and it is vital that large multinational organisations account for the influence they can have on emissions within their value chains given the importance they have for the achievement of global policy goals. For this reason engagement with SMEs is also an important consideration, therefore TCFD should consider the best means of supporting proportionate inclusion of SMEs, to facilitate further improvement in data quality.

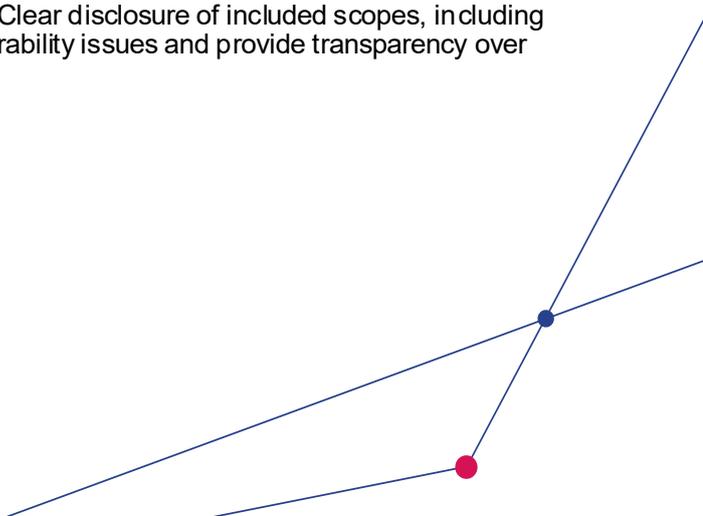
However, as is also noted, when aggregating metrics at a portfolio level, the potential for double counting exists. The appropriateness for inclusion of each emissions scope within a given metric must therefore be assessed, giving due consideration to the purpose of the particular metric. For example, when utilising metrics for engagement at a company level, inclusion of all emissions scopes is appropriate and relevant. However, when aggregating emissions, it may be more appropriate to include only Scope 1 and 2 emissions to limit the potential for double counting between companies.

CDSB advocates that data should be collected and reported on all material sources of climate impact. Therefore, where the nature of a company's business model dictates that Scope 3 emissions represent a material source of climate impact, these emissions should be accounted for in order to provide a full picture of organisational climate-related risks and opportunities associated with its GHG emissions.

Clear disclosure of emissions disaggregated by reporting scope, and with appropriate accompanying narrative to clarify the organisational and operational boundaries applied in their calculation, is therefore a key underpinning requirement for forward-looking financial sector metrics, in order to provide users with complete information as part of their own decision-making processes. Such metrics should be built upon data collated by scope, and utilised as appropriate for the metric's purpose. Clear disclosure of included scopes, including disaggregation of metrics by scope, can help to reduce comparability issues and provide transparency over calculation methodologies.

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How important is it to understand which scenarios and pathways were used in the calculation of forward-looking metrics to make them decision-useful?

- Very important

Is there anything additional you would like to tell us about your responses above? If not, please click 'continue' to proceed.

Given the timescales over which the impacts of climate change will be felt, the non-linear and potentially abrupt nature of possible impact, and the multiple, interconnecting systems that drive climate-related risks and opportunities for companies, scenario analysis is a particularly useful method for companies to better understand potential futures, respond to and disclose such information to investors.

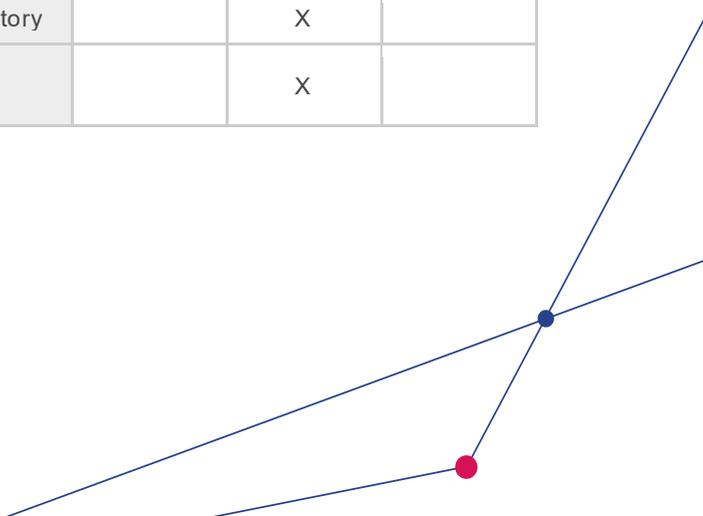
The different scenarios used, their underlying assumptions, and the time frames over which analysis has been completed are all important aspects to disclose to enable forward-looking metrics to be appropriately contextualised and interpreted. Uncertainties are inherent in the consideration of possible future scenarios, and ranges and sensitivities should therefore also be clearly articulated to support considered use of disclosures.

Additionally, where possible use of scenarios should be consistent across both business strategy and disclosure metrics; for example strategic resilience to a 1.5C scenario is relevant to consider, if this is the warming trajectory to which the company has also aligned its strategic goals and associated targets. However, further exploratory scenarios (i.e. those that consider the potential for a higher temperature rise, and more extreme physical climate impacts) may also be used in addition to this to consider wider strategic resilience.

There is an opportunity for the TCFD to therefore play a role in providing additional guidance and support to enable the development of a standardised forward-looking metrics, which take into consideration alignment to the Paris Agreement. Efforts to develop forward-looking financial sector metrics should seek to complement and align with parallel efforts currently being adopted by companies, i.e. via the Science-Based Targets Initiative.

Which of the following metrics do you find useful for financial decision-making?

	Useful now	Could be useful with improvements to methodology	Not useful
A forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon		X	
Climate value-at-risk		X	
Implied temperature rise or warming potential		X	
Amount of apportioned emissions over/under a 1.5°C alignment trajectory		X	
The proportion of underlying investments that are aligned with the EU Taxonomy		X	



Carbon earnings at risk		X	
Unpriced carbon cost		X	
Other (please specify):			

Is there anything additional you would like to tell us about your responses above? If not, please click 'continue' to proceed.

Whilst CDSB does not take a strong view on the precise metrics to be disclosed by financial sector preparers, it is important that such metrics support consistency and comparability between peers within the sector and, where appropriate, the wider economy. Metrics which emphasise alignment with globally agreed goals, and existing and emergent regulatory requirements should therefore be prioritised. In developing metrics and reporting methodologies, wherever possible approaches should build upon and align to existing reporting frameworks and standards, for example the GHG Protocol Corporate Reporting Standard, and SASB sector standards, to support continuing comparability and consistency in approaches.

Which of the following metrics would you find useful if disclosed by the following groups?

Climate value-at-risk

- I don't know

A forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon

- I don't know

Implied temperature rise or warming potential

- I don't know

The proportion of underlying investments that are aligned with the EU Taxonomy

- I don't know

Unpriced carbon cost

- I don't know

Amount of apportioned emissions over/under a 1.5C alignment trajectory

- I don't know

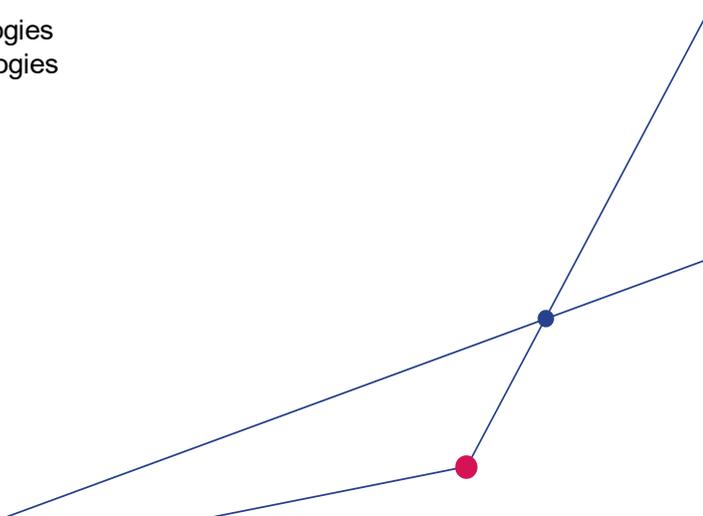
Please provide any additional information about your responses above or on what else would be useful to you.

As the provider of a reporting framework intended to be applicable across stakeholder and industry groups, it is not within CDSB's remit to provide recommendations on the usefulness of disclosure to individual groups within the financial sector.

Which of these changes would improve the usefulness of forward-looking disclosures for you?

- More clarity and transparency in calculation methodologies
- More comparable approaches to calculation methodologies
- Better availability and quality of GHG emissions data

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- More useful narrative content
- Use of standard forward-looking emissions pathways

Is there anything additional you would like to tell us about your responses above? If not, please click 'continue' to proceed.

As noted in previous comments, disclosure on calculation methodologies, underlying assumptions and provision of GHG emissions data in alignment to the GHG Protocol are all important considerations to ensure that metrics are used and disclosed with appropriate contextualisation.

Whilst narrative reporting by corporate report preparers is often extensive, more concise disclosures which support the interpretation of disclosure on organisational risks and metrics, but are limited to financially material information, are necessary to support decision-usefulness.

Despite these challenges, it is important that these improvement areas do not present a barrier to progress on adoption of forward-looking metrics and their wider disclosure in the interim. Whilst data improvements can support enhanced disclosure, efforts should nonetheless be pursued to provide iterative disclosure, which can be updated over time as data quality and availability improves.

To what extent does your organization find current ITR disclosures useful in financial decision-making?

- Not applicable/I don't know

Has an ITR rating influenced a specific financial decision your organization has made?

- Other (please specify)

Please provide any further information on why an ITR rating has or has not influenced a decision, as applicable.

Not applicable as CDSB is not a financial institution.

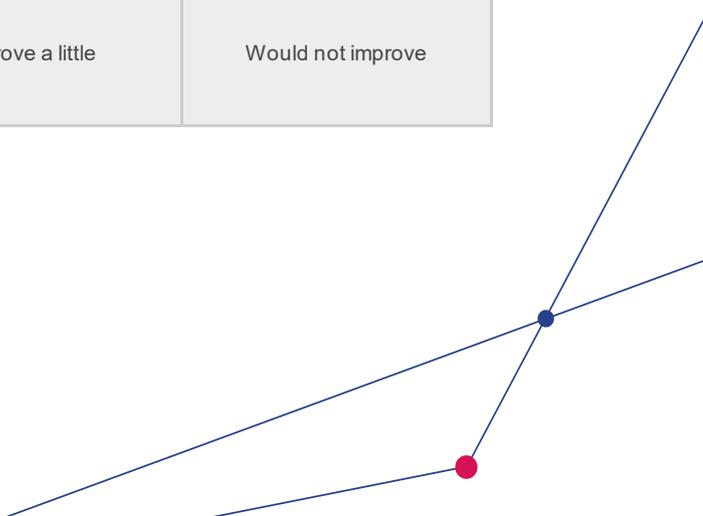
What are the benefits of ITR as a metric? Select all that apply.

- Useful for assessing climate-related risks
- Useful for assessing climate-related opportunities
- Useful for assessments of strategy

Is there anything additional you would like to tell us about the usefulness of ITR as a metric? If not, please click 'continue' to proceed.

How much would each of the following improve the rigor and usefulness of ITR disclosures?

	Improve a lot	Improve a little	Would not improve
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Better availability and quality of GHG emissions data	X		
More clarity and transparency in calculation methodologies	X		
More comparable approaches to calculation methodologies	X		
Use of standard forward-looking emissions pathways	X		

Please provide any additional information about how the rigor and usefulness of ITR disclosures could be improved.

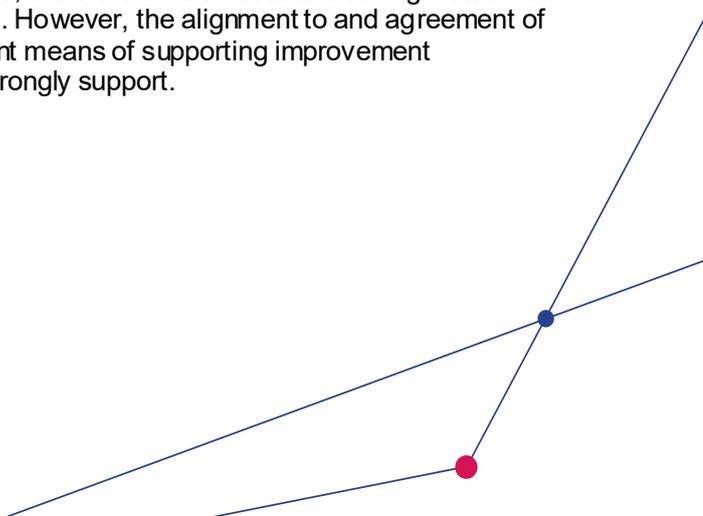
How useful would disclosure of an ITR rating be from the following types of financial organizations?

	Extremely useful	Very useful	Somewhat useful	Not very useful	Not at all useful
Asset owners			X		
Asset managers			X		
Banks			X		
Insurance companies			X		
Index providers			X		
Other organization (please specify):			X		

Please provide any additional information about how disclosure of an ITR rating from a financial organization could be useful.

CDSB’s Framework is designed to be applicable across sectors, therefore we do not take a strong view on the applicability or usefulness of particular metrics at a sector level. However, the alignment to and agreement of relevant sector-level metrics among constituents is an important means of supporting improvement comparability and consistency across disclosures, which we strongly support.

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How useful would an ITR rating be for each of the following asset classes?

	Extremely useful	Very useful	Somewhat useful	Not very useful	Not at all useful
Loans to corporates			X		
Listed debt			X		
Listed equity			X		
Sovereign debt			X		
Real Estate			X		
Mortgages			X		
Other asset class (please specify):					

Is there anything additional you would like to tell us about your responses above? If not, please click [‘continue’ to proceed.](#)

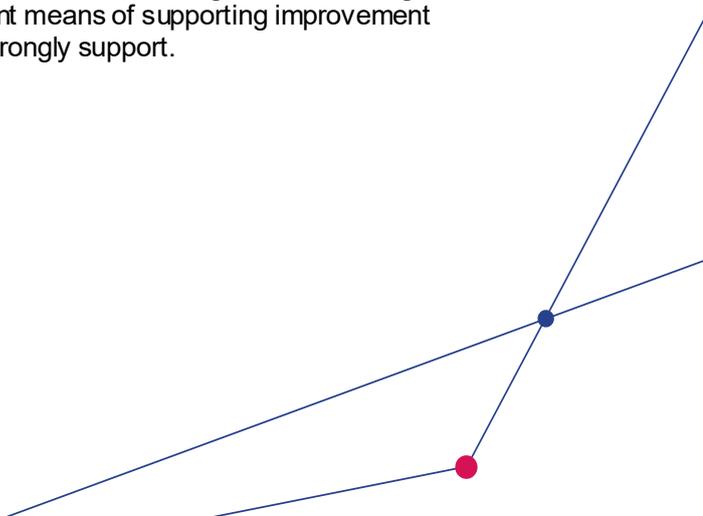
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For each sector listed below, how useful would you find an ITR rating in financial decisions?

	Extremely useful	Very useful	Somewhat useful	Not very useful	Not at all useful
Materials and buildings			X		
Agriculture, food, and forest products			X		
Transportation			X		
Energy			X		
Other sector (please specify):					

Is there anything additional you would like to tell us about your responses above? If not, please click [‘continue’ to proceed.](#)

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How useful would disclosure of an ITR metric be at each of the following levels?

	Extremely useful	Very useful	Somewhat useful	Not very useful	Not at all useful
Company level				X	
Portfolio level			X		
Fund level			X		
Investment strategy level			X		
Asset level				X	
Other level (please specify):					

Is there anything additional you would like to tell us about your responses above? If not, please click 'continue' to proceed.

Aggregated metrics such as ITR are generally likely to be most useful at the portfolio or fund scale. At a company or asset level, existing metrics such as progress against a science-based emissions reductions target are likely to provide a more meaningful measure of overall alignment and emissions reductions activities. Additionally, given these targets have already seen significant support and adoption in the corporate sector, it would be preferable to avoid the introduction of additional metrics which may lead to inconsistency and further complexity for companies.

