July 2021

TCFD Consultation: Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans

ClientEarth Response

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Top Lines

1. ClientEarth welcomes the additional guidance being introduced by the TCFD on metrics and targets, and strongly supports the introduction of guidance recommending that organisations disclose transition plans. However, we propose a number of amendments to the TCFD's proposals:

   a. <u>Materiality</u>: The disclosure of climate-related metrics and climate-related financial impacts should not be subject to a materiality assessment.

   b. <u>Scope 3 emissions</u>: The guidance for all sectors on metrics and targets should not include a caveat that organisations should only disclose scope 3 emissions where they deem it *"appropriate"* to do so. Instead, it should recommend that all relevant categories of scope 3 emissions should be disclosed.

   c. <u>Interim targets</u>: The guidance for all sectors on metrics and targets should specify that the duration of short-term interim targets should be between two to five years (rather than five to ten years, as currently proposed).

   d. <u>Transition plans</u>: The guidance for all sectors on strategy should expressly specify that emissions reduction targets are a necessary component of transition plans, and that such targets should at least match any national emissions reduction commitment in any jurisdiction in which the organisation operates.

   e. <u>Accounts</u>: The TCFD's proposed recommendation to disclose transition plans should be supplemented by a recommendation for organisations to reflect their transition plans and other climate-related disclosures in their financial accounts (including the climate-related assumptions on which their accounts have been based).

   f. <u>Offsets</u>: The guidance for all sectors on metrics and targets should set out minimum disclosure standards in relation to the use of carbon offsets.

   g. <u>Portfolio alignment</u>: The guidance for banks, asset managers, asset owners and insurers should clarify that portfolio alignment should be measured against 1.5°C warming (rather than *"2°C or lower"*, as currently proposed).

   h. <u>Insurance portfolio alignment</u>: The guidance for insurance companies on metrics and targets should clarify that they are encouraged to develop methodologies to measure the alignment of their underwriting portfolios with a 1.5°C temperature pathway, and that (when such methodologies are available) they should measure and disclose the alignment of their portfolios.

Materiality

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

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

NO MATERIALITY ASSESSMENTS FOR METRICS AND FINANCIAL IMPACTS

2. Disclosure of climate-related metrics and climate-related financial impacts should not be subject to a materiality assessment. Imposing a materiality threshold in respect of climate-related metrics will reduce the quality of climate-related disclosures (including on climate-related risks and opportunities), deprive users/investors of relevant information on organisations' environmental impacts, and ultimately serves as an excuse for organisations to delay compliance. This is because:

   a. Investors have been clear that detailed climate change-related information (including on emissions) is material to their investment and stewardship decision making.[1] Even where an organisation's board may consider that it is not subject to material climate-related risks, comparable information on the environmental impact of that organisation (including its scopes 1 to 3 emissions) will be relevant to many investors.

   b. Climate-related metrics and financial impact assessments are a vital tool to enable organisations to properly assess their climate-related risks and opportunities (disclosed under the Strategy recommendation), and to set their climate strategy. Requiring the disclosure of metrics and financial impacts for all organisations will mean that organisations are required to obtain and assess such information, and will therefore improve the quality of disclosures of risks and opportunities. In particular, it will avoid the risk of organisations incorrectly concluding that they are not exposed to material climate risks, in the absence of the information they need to reliably make such an assessment (such as the amount of their emissions, and the proportion of their assets and activities exposed to physical and transition climate risks). In addition, widespread disclosure of such metrics will enable comparisons to be made across and within industry sectors.

   c. Similarly, there are inherent difficulties with allowing organisations to choose not to collect and disclose data on their emissions, if they deem that their emissions are immaterial. If an organisation does not collect data on its emissions, then any conclusion that it makes on the materiality of its emissions will require assumptions to be made based on incomplete information. This runs the risk that organisations will make poor materiality assessments based on erroneous assumptions.

   d. Adopting a materiality threshold provides an excuse for organisations to delay compliance, will waste investors' time with arguments about materiality, and undermines effective accountability and enforcement by regulators. This would lead to slower implementation, lower quality disclosures with greater scope for 'greenwash', and increased uncertainty for organisations, investors, and consumers.

[1] For example, see BlackRock's paper on 'Climate risk and the transition to a low-carbon economy' at https://www.blackrock.com/corporate/literature/publication/blk-commentary-climate-risk-and-energy-transition.pdf

e. Removing the materiality threshold for metrics and financial impacts will lead to more widespread disclosure of scopes 1 to 3 emissions by organisations. This will benefit both governments and organisations:

   i. Increasing numbers of governments are setting emissions reduction targets. We note that 191 countries are party to the Paris Agreement, and 92 countries have set Nationally Determined Contributions under that agreement.[2] More complete disclosure of organisational emissions will allow governments and regulators to measure progress against their targets, and to set appropriate strategies to reduce national emissions.

   ii. The TCFD's proposed guidance provides that organisations should disclose relevant categories of scope 3 emissions. More widespread disclosure of emissions by organisations (even where those organisations may consider that their own emissions and/or climate risks are low) will assist other organisations in obtaining complete data on the emissions across their supply chains.

f. Climate-related metrics and financial impact assessments will be material to all organisations, as all organisations regardless of sector will be affected by the transition to a low carbon world and will need to reduce their emissions. The best available science indicates that global greenhouse gas emissions must reduce by 45% (compared to 2010 levels) by 2030 and to net-zero by 2050 in order to limit warming to 1.5°C,[3] and as noted above, increasing numbers of governments have committed to emissions reduction targets in light of this. In this context, all organisations should be aware of their scopes 1 to 3 emissions.

g. Existing laws protect organisations and directors from frivolous or unfounded litigation in respect of good faith climate-related disclosures. Conversely, retaining an unclear materiality threshold may in practice lead to material omissions, increasing legal risk and uncertainty.[4]

3. For the reasons set out above, we agree with the TCFD's view in the consultation paper that *"cross-industry, climate-related metrics, particularly GHG emissions, are key to understanding climate-related risks and opportunities both by users assessing individual companies; those aggregating risks across companies within their investing, lending, or underwriting portfolio; and by regulators looking to assess systemic risks".*

<u>NO MATERIALITY ASSESSMENTS FOR SCOPE 3 EMISSIONS</u>

4. The removal of the materiality assessment should apply to all climate-related metrics and financial impact, including the disclosure of scope 3 emissions. The current system of leaving it to organisations to decide whether they should disclose scope 3 emissions is not working, as organisations are largely choosing not to disclose. For example, in the UK, two thirds of FTSE 250 companies do not disclose their scope 3 emissions, and those that do are often not fully transparent about the methodology and exclusions they have applied in their calculations.[5] As a consequence, many organisations' net-zero

[2] See https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs/nationally-determined-contributions-ndcs and https://eciu.net/netzerotracker.
[3] See https://www.ipcc.ch/sr15/chapter/spm/.
[4] See CCLI's paper 'Concerns misplaced: Will compliance with the TCFD expose directors to liability risk?' at https://www.smithschool.ox.ac.uk/research/sustainable-finance/publications/CCLI-TCFD-Concerns-Misplaced-Report-Final-Briefing.pdf.
[5] See ClientEarth's Accountability Emergency report at https://www.clientearth.org/latest/documents/accountability-emergency-a-review-of-uk-listed-companies-climate-change-related-reporting-2019-20/

commitments do not include scope 3 emissions.[6] This in turn renders such targets less effective, makes it harder for users/investors and governments to assess whether organisations are taking meaningful steps in relation to the climate impact of their value chains, and also risks giving a misleading impression to investors and the public as to organisations' climate goals (as many users/investors may not be aware that there are significant value chain emissions which are omitted from the targets). In view of the above, the TCFD should make the following changes to its proposed guidance:

a. The materiality threshold in respect of scope 3 emissions should be removed. Organisations should be required to disclose all categories of scope 3 emissions that are relevant to their business (as set out by the GHG Protocol).

b. The new footnote at Section C.4 (Metrics and Targets) Recommended Disclosure (b) of the proposed guidance is unclear and needs to be clarified. In its current form, it could be read to imply that organisations do not need to disclose their scope 3 emissions if they deem scope 3 emissions not to be a significant risk, and their scope 3 emissions account for less than 40% of their overall emissions. For the reasons set out above, it would be a mistake to give organisations a wide discretion not to disclose their scope 3 emissions if they consider scope 3 emissions not to be material/significant to them. We therefore propose the following amendment to that footnote (our proposed new wording is underlined):

   > *"TCFD has determined that data and methodologies have matured sufficiently such that Scope 3 disclosure is appropriate for all sectors, and should be disclosed by all organizations. Disclosure is particularly important for organizations for which Scope 3 emissions account for 40% or more of the total emissions of the organization or for which Scope 3 emissions have been deemed a significant risk in their value chain."*

c. Section C.4 (Metrics and Targets) Recommended Disclosure (b) of the proposed guidance states that scope 3 emissions should only be disclosed *"if appropriate"*. This would essentially leave it to the discretion of organisations as to whether they disclose scope 3 emissions, which (for the reasons outlined above) would be a mistake. In addition, this would seem to be inconsistent with the TCFD's position in the consultation paper that all organisations should disclose scope 3 emissions: *"data and methodologies have matured sufficiently such that disclosure of relevant, material categories of Scope 3 emissions is now appropriate for all sectors"*. We therefore propose the following amendment to that footnote (our proposed new wording is underlined):

   > *"Organizations should disclose their absolute Scope 1 and Scope 2 GHG emissions and~~, if appropriate,~~ all relevant categories of Scope 3 GHG emissions, as well as carbon intensity, and the related risks."*

DOUBLE MATERIALITY

5. Disclosures under the Strategy recommendation (including in respect of climate-related risks and opportunities) are subject to a materiality assessment. We propose that the guidance be amended to clarify that, when assessing whether a particular risk is material, organisations must be required to consider not only whether there is a material risk to the organisation's performance, but also whether

[6] For example, see analysis by Climate Action 100+ at https://www.climateaction100.org/news/climate-action-100-issues-its-first-ever-net-zero-company-benchmark-ofthe-worlds-largest-corporate-emitters/.

there is a material risk of negative environmental impact (referred to as the concept of *"double materiality"* in the EU's Corporate Sustainability Reporting Directive proposals).[7] Without such a rule, organisations might focus only on risks that are material to their performance. However, risks that have a material impact on the environment will be of importance to investors that wish to invest in environmentally responsible businesses, and organisations will need to disclose and manage such risks in order for national governments to meet their climate goals.

Emissions related to services and lobbying

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

6. Climate impacts related to the provision of services (rather than products) will often fall outside the current scope 3 categories in the GHG Protocol (with the exception of financed emissions, which the TCFD is recommending should be disclosed). There are increasing calls on various service industries, from advertising businesses to law firms, to manage the climate impacts associated with their work product. We propose that organisations should be encouraged to develop reporting on these linked emissions (for example, using the available data from their clients), and to disclose the specific steps they are taking to seek to bring about their reduction. Organisations may take credible steps through compliance with globally endorsed business responsibility frameworks such as the UN Guiding Principles on Business & Human Rights and the OECD Guidelines on Responsible Business Conduct, which set out standards applicable to all business enterprises for exerting the leverage they have through their business relationships to address adverse impacts.

7. A further issue falling outside emissions reporting is public policy activities (e.g. lobbying). Leading investors have clearly communicated their expectations that policy activities must be fully aligned with climate goals[8] and lobbying activity is included in the Carbon Disclosure Project's questionnaire.[9] We propose that organisations report in line with the above-linked investor expectations, namely on the corporate position, (in)direct lobbying, governance processes, third party organisation membership and alignment.

Carbon Offsets

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

8. The use of carbon offsets by organisations in their emissions reporting and targets gives rise to a significant risk of unclear and/or misleading disclosures. Accordingly, we propose below that organisations should be required to clearly disclose the extent to which they rely on offsets in their metrics and targets, as well as certain details about their offsets (as set out below), which would bring

[7] See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189&from=EN at articles 19.a.1 and 29.a.1.
[8] See the Investor Expectations on Corporate Climate Lobbying at https://www.unpri.org/Uploads/i/k/t/Investor-Expectations-on-Corporate-Climate-Lobbying_en-GB.pdf.
[9] https://guidance.cdp.net/en/guidance?cid=8&ctype=theme&idtype=ThemeID&incchild=1&microsite=0&otype=Guidance&tags=TAG-587,TAG-605,TAG-599 at question C12.3.

TCFD in line with the position of the Taskforce on Scaling Voluntary Carbon Markets and other expert bodies.

9. As you will be aware, 'carbon offsets' are carbon credit schemes by which businesses fund (part of) forest protection, afforestation or clean energy/appliance initiatives. Broadly, there are two categories of offsets projects: those that purport to reduce or avoid emissions (such as renewable energy or carbon capture and storage) and those that claim to remove carbon from the atmosphere (such as afforestation).

10. There are a number of problems with the representation of carbon offsets as the negative equivalent of emissions, which mean they are not what many users/investors are informed or may assume:

    a. It is (at best) difficult to establish what would have happened in the counterfactual where the carbon credits were not purchased (referred to as the issue of *"additionality"*). This depends on a counterfactual theory, and a probabilistic assessment. For example, it cannot be determined that, absent funding for forest protection, deforestation would have occurred. In addition, the longevity of carbon offsets projects cannot be guaranteed (referred to as the issue of *"permanence"*). For example, it cannot be proved that protected or new growth forests will last for the many centuries which the equivalent emissions will (not least due to climate change itself, which will alter ecosystems). However, carbon credit schemes treat emission offsets as the equivalent of emissions - both certain and permanent. As a result, they may in reality be less effective than users/investors are led to believe. Offset programs have frequently extracted less carbon than they have promised.[10]

    b. Most significantly, the use of emissions reduction/avoidance offsets is generally not consistent with the transition to net zero to limit global warming. Offsetting emissions cannot get the world to net-zero emissions, as they allow unabated emissions (that are not removed from the atmosphere) to continue. The Science Based Targets Initiative summarised this problem as follows: *"Understanding that reaching net-zero emissions globally requires all sources of emissions to be eliminated or neutralized with an equivalent amount of negative emissions, this strategy [of carbon offsetting] is not consistent with reaching a state that is consistent with reaching net-zero emissions at the planetary level"*, and *"The widespread adoption of a practice that leaves a ton of emissions unabated for every ton of emissions abated somewhere else would not be consistent with phasing out nearly all sources of anthropogenic GHG emissions"*.[11] However, many users/investors will not be aware of this problem, and will assume (or be misinformed) that offsets constitute effective management of climate risk or, worse, that *"carbon neutrality"* based on offsets is equivalent to net-zero.

11. More generally, the language around offsets and carbon neutrality targets is often unclear and poorly understood. The consultation paper notes at Box E1 the difference between carbon neutral targets (which can take into account offsets) and net-zero and zero-carbon targets (neither of which take offsets into account). However, this distinction is unlikely to be clear to all users of the information, in particular because there is insufficient standardisation in the use of such terms. By way of example, Mark Carney's assertion that Brookfield Asset Management had achieved net-zero emissions due to its avoided emissions came under significant criticism as potentially misleading.[12] In view of the above

[10] See Noel Hutley SC's Opinion on Climate Change and Directors' Duties notes at https://cpd.org.au/wp-content/uploads/2021/04/Further-Supplementary-Opinion-2021-3.pdf, paragraph 44 onwards.
[11] See https://sciencebasedtargets.org/resources/files/foundations-for-net-zero-full-paper.pdf.
[12] See https://www.ft.com/content/2d96502f-c34d-4150-aa36-9dc16ffdcad2.

issues, ClientEarth has serious concerns about the use of carbon offsets to purportedly meet organisations' emissions reduction targets.

12. The TCFD's technical supplement addresses carbon offsets at page 40. It recognises that there is currently no consensus as to the methodology for offset accounting, and states that *"methodologies should take into account future guidance on the role of financing external carbon reductions or removals (e.g., paid for via "offset" or carbon credits) in estimating future emissions".*

13. In the interim, whilst commonly accepted standards are developed, TCFD should provide guidance to help ensure that organisations which use carbon offsets provide sufficiently clear and detailed disclosures to avoid the risk of misleading users/investors (in view of the issues outlined above). TCFD should also help organisations align with developing guidance, rather than build in misalignment and inconsistency. In its Final Report in January 2021,[13] the Taskforce on Scaling Voluntary Carbon Markets stated that offsets should form *"part of a credible transition plan to net-zero"* which seeks to *"decarbonize operations and value chains in line with science to limit warming to 1.5-degree Celsius"*, and also recommended that a framework for reporting offsets should be developed:

> *"On carbon accounting, reporting/disclosure associated with the use of offsets is an important enabler to demand signaling and market legitimacy" … "there will need to be guidance on how removals offsets may or may not be counted against a company's footprint (Scope 1, 2, and 3). Further— and crucially—no commonly agreed-upon framework yet exists to report corporate offsetting (both past activities and future plans). The framework should have sufficient details, such as volumes purchased and retired by project types, vintage, standard, and potentially price paid. It should include guidance for companies to report direct emissions and offset purchases separately, rather than as a net figure."*

14. At a minimum, we propose that the TCFD should recommend that organisations which use 'carbon credits' or offsets should:

    a. Disclose which (if any) of their metrics and targets take into account offsets.

    b. For each of their metrics and targets that takes into account offsets, disclose the extent to which offsets contribute to the metric/targets and disclose the amount of emissions (or targeted emissions reductions) without taking into account offsets.

    c. Specify the volume of offsets purchased by project type, vintage (i.e. the year the emissions reduction took place), location and standard (e.g. Verified Carbon Standard, Gold Standard, American Carbon Registry or Climate Action Reserve). In relation to project type, at a minimum this should specify the amount of emissions reduction/avoidance projects versus carbon removal projects. In addition, we propose that it should include the taxonomy of carbon offsets set out in the University of Oxford's 'The Oxford Principles for Net Zero Aligned Carbon Offsetting'.[14] This includes: (1) avoided emissions or emissions reduction without storage (e.g. through renewable energy, low emission technologies, or methane or nitrous oxide abatement); (2) emissions reduction with short-lived storage (e.g. avoided damage to ecosystems or changes to agricultural practices); (3) emissions reduction with long-lived storage (e.g. carbon capture and storage in reservoirs); (4) carbon removal with short-lived storage (e.g. afforestation/reforestation, soil carbon enhancement and ecosystem restoration); and (5) carbon removal with long-lived storage

[13] See https://www.iif.com/Portals/1/Files/TSVCM_Report.pdf at recommended actions 11, 12 and 16.
[14] See https://www.smithschool.ox.ac.uk/publications/reports/Oxford-Offsetting-Principles-2020.pdf at page 7.

(e.g. direct air carbon capture and sequestration, bioenergy with carbon capture and storage, mineralisation and enhanced weathering).

d. Disclose (if applicable) how offsets form part of the organisation's transition plan, including which emissions the organisation intends to offset: only the residual emissions which are (genuinely) not feasible to eliminate (and why this is so), or emissions which the organisation could feasibly eliminate.

Portfolio alignment

Question 49. Please provide any additional comments you have on the recommendations of the TCFD proposed supplemental guidance for the financial sector (Measuring Portfolio Alignment). Please refer to Section C.3 Proposed Updates to All Sector Guidance and Supplement Guidance and the Portfolio Alignment Technical Supplement for definitions and more details.

<u>PORTFOLIO ALIGNMENT TEMPERATURE PATHWAY</u>

15. The proposed guidance recommends that banks, asset managers, asset owners and insurers should measure the alignment of their portfolios with a "*2°C or lower temperature pathway*". However, information on alignment with 1.5°C warming (rather than 2°C) will be most useful for users/investors and governments/regulators, in light of the scientific basis for limiting warming to 1.5°C and the increasing acceptance amongst governments, organisations and the wider public that warming should be limited to 1.5°C (as well as the increasing national emissions reduction commitments aligned with 1.5°C). In addition, providing that all organisations should disclose alignment with 1.5°C will improve comparability between organisations. We therefore urge the TCFD to recommend in its guidance that banks, asset managers, asset owners and insurers should measure alignment of their portfolios with 1.5°C warming.

16. The TCFD recognises in the consultation paper (at page 49) that the focus of the international dialogue on climate change has shifted away from achieving the Paris Agreement goals towards limiting warming to 1.5°C and achieving net-zero emissions by 2050, following the IPCC's Special Report on Global Warming of 1.5°C. It is crucial that the TCFD reflects this position in its guidance by requiring financial institutions to measure their alignment with 1.5°C warming.

<u>METHODOLOGIES FOR UNDERWRITING PORTFOLIO ALIGNMENT</u>

17. Methodologies for assessing the alignment of underwriting portfolios with climate goals are currently underdeveloped. This is a significant concern, as it hinders insurers setting meaningful climate targets in respect of their insurance business. Although many financial institutions have set net-zero emission targets in relation to investment portfolios, the same is not true in respect of underwriting portfolios, in part due to the lack of methodologies. It is therefore crucial that the TCFD clarifies that (re)insurers are expected to develop such methodologies, and that the (re)insurance sector should not rely on the current lack of methodologies as a justification for inaction.

18. The proposed guidance recommends that banks, asset managers and asset owners should *"measure and disclose the alignment of their portfolios consistent with a 2°C or lower temperature pathway"*. However, the position differs for (re)insurers. The proposed guidance does not expressly recommend that (re)insurers should measure and disclose the alignment of their underwriting portfolios with a 2°C or lower temperature pathway, and instead gives portfolio alignment as only an *"example"* of forward-

looking metrics that (re)insurers could disclose. See Section D2 (Metrics and Targets) Recommended Disclosure (a):

> *"(Re)Insurance underwriters should incorporate forward-looking metrics into their target-setting frameworks and management processes, for example by measuring and disclosing the alignment of their underwriting portfolios consistent with a 2°C or lower temperature pathway (e.g., Paris-aligned)".*

19. In light of the above, this should be amended to clarify that: (1) the TCFD encourages (re)insurers to develop methodologies to measure the alignment of their underwriting portfolios with a 1.5°C or lower temperature pathway; and (2) (re)insurers should measure and disclose the alignment of their portfolios, when such methodologies are available. This amendment would also reflect the TCFD's position in footnote 61 of the consultation paper, which states that "*TCFD encourages (re)insurance underwriters to begin with forward-looking metrics and then move to measuring and disclosing the alignment of their underwriting portfolios as methodologies progress."*

Interim targets

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

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

<u>INTERIM TARGETS</u>

20. Section C.4 (Metrics and Targets) Recommended Disclosure (c) of the proposed guidance provides that organisations should set interim targets lasting 5 to 10 years in relation to any mid-term or long-term targets. However, short-term targets with a period of five to ten years are too long, and instead interim targets (including any targets set by organisations as part of their transition plans) should be set at two to five years.

21. There is a risk that organisations that set short-term targets as long as ten years may not take immediate action to meet their targets, and may defer action until the latter part of the target period. The next decade is crucial for climate action, so it is vital that organisations set targets that lead to action now. In addition, transition risks (including the risk of legal and regulatory developments) are by their nature complex and unpredictable, and can manifest in a short timeframe. By way of example, Shell has undertaken a significant shift in its energy transition strategy [15] as a result of the recent judgment of the Hague District Court in *Milieudefensie and others v Royal Dutch Shell*,[16] in which Shell was ordered to reduce scope 1 to 3 emissions by 45% (compared to 2019 levels) by 2030. Organisations must take action now to mitigate these risks.

22. We note that a number of standards for climate-related targets and disclosures provide for short-term targets of no more than five years. By way of example, the Climate Action 100+ Net-Zero Company

[15] See https://www.reuters.com/business/sustainable-business/shell-seek-ways-deepen-carbon-cuts-following-court-ruling-ceo-2021-06-09/.
[16] Case number / cause list number: C/09/571932 / HA ZA 19-379.

Benchmark (issued in 2020) defines short term as up to 2025,[17] the Transition Pathway Initiative defines targets with a duration over five years as long-term,[18] the Paris Agreement Capital Transition Assessment measures financial portfolio alignment over a five year period,[19] and the Science Based Targets recommends setting short-term targets[20].

Transition plans

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

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

<u>TRANSITION PLANS & EMISSIONS REDUCTION</u>

23. We strongly support the TCFD's proposal to introduce guidance recommending that organisations disclose transition plans within the Strategy recommendation. We agree with the TCFD's view that the disclosure of transition plans provides important information for users/investors, helps market participants to price assets, and helps regulators assess systemic risks. However, we are concerned about the lack of specificity regarding the content of transition plans, and in particular regarding the need for them to contain emissions reduction targets.

24. Currently, the proposed guidance states that transition plans should include *"climate-related metrics and targets"*, but does not specify what those targets should be. This is unhelpful; organisations need clear guidance on this. We propose that the guidance at Section C.2 (Strategy) Recommended Disclosure (b) should make clear that: (1) science-based emissions reductions targets are a necessary part of transition plans; and (2) an organisation's emissions reduction target should at least match any national emissions reduction commitment in any jurisdiction in which it operates.

25. In our view, science-based emissions reduction targets should be a necessary element of all transition plans (see ClientEarth's Position Paper on Principles for Paris-alignment for more detail).[21]

    a. Organisations operating in jurisdictions where a national emissions reduction target has already been set, but which have not set an organisational strategy to reduce their emissions in line with that national target, will inevitably face a material risk that regulation will be introduced requiring them to align their strategy with national commitments. Such organisations (acting prudently) should be implementing transition plans and taking action now, in order to ensure they navigate the risks of the transition in a smooth and orderly manner.

    b. Organisations operating in jurisdictions where there are not yet any national emissions reduction targets will be subject to the risk that a national emissions reduction target will be introduced. It is expected that increasing numbers of countries will set emissions reduction targets (we note that 100 of the countries that have signed as parties to the Paris Agreement have not yet set nationally

[17] See https://www.climateaction100.org/wp-content/uploads/2021/03/Climate-Action-100-Benchmark-Indicators-FINAL-3.12.pdf.
[18] See https://www.transitionpathwayinitiative.org/publications/82.pdf?type=Publication.
[19] See https://2degrees-investing.org/wp-content/uploads/2021/03/PACTA-disclosures-report.pdf.
[20] See https://sciencebasedtargets.org/resources/legacy/2017/04/SBTi-manual.pdf.
[21] https://www.clientearth.org/media/40omeroa/2020-10-16-principles-for-paris-alignment-position-paper-ce-en.pdf.

determined contributions).[22] In order to mitigate this risk, organisations should set targets to reduce their emissions at least in line with the goals of the Paris Agreement (in particular, Articles 2.1(a) and (c)).

26. The consultation paper itself recognises that emissions reductions targets should be an integral part of transition plans (although this is not reflected in the proposed guidance). The consultation paper states: *"a transition plan is an aspect of an organization's overall business strategy that lays out how an organization aims to minimize climate-related risks and increase opportunities as the world transitions toward a low-carbon economy, including by reducing emissions of its own balance sheet and that of its value chain."* In addition, the consultation paper gives net-zero targets, carbon-neutral targets, zero-carbon targets and Paris-aligned targets as examples of emissions reduction targets that can be included within transition plans.

27. In view of the above, the guidance should be amended to expressly recommend that an organisation's transition plan should include a science-based emissions reduction target, and that target should be at least as ambitious as any relevant national commitments.

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

TRANSITION PLANS & COMPANY ACCOUNTS

28. Currently, even where organisations have Paris-aligned transition plans in place, they are largely failing to align their financial accounts with those transition plans. This can result in inaccurate cost and return information (for example, failing to reflect asset impairments), meaning that both company directors and investors will make decisions based on inaccurate information.

29. The recommendation in the proposed guidance to disclose transition plans should therefore be supplemented by a recommendation for organisations to reflect their transition plans and other climate-related disclosures in their financial accounts (including in the climate-related assumptions on which their accounts have been prepared).

30. The Institutional Investors Group on Climate Change (which represents over €33 trillion in assets under management) has set out investor expectations as to how companies should prepare accounts that are aligned with the goals of the Paris Agreement,[23] which could serve as a guide for organisations in aligning their accounts with their transition plans. In particular, in line with the IIGCC's proposals, an organisation's accounts should include: (1) an affirmation that the accounts are aligned with the organisation's transition plan; (2) adjustments to assumptions and estimates to ensure that they are aligned with the transition plan; (3) disclosure of the results of sensitivity analysis to variations in those assumptions and estimates; (4) disclosure of the implications of the transition plan to dividend paying capacity; and (5) confirmation of consistency between narrative reporting on climate risks and the accounting assumptions.

[22] See https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs/nationally-determined-contributions-ndcs.
[23] see https://www.iigcc.org/download/investor-expectations-for-paris-aligned-accounts/?wpdmdl=4001&refresh=60906374168ca1620075380.

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