Climate Disclosure Standards Board

12 February 2017

Climate Disclosure Standards Board's Response to the TCFD Recommendations on Climate-Related Financial Disclosures

On 14 December 2016, the Task Force on Climate-Related Financial Disclosures (TCFD) issued its draft recommendations on climate-related financial disclosures. The TCFD launched a 60-day public consultation period, which closes on 12 February 2017.

The Climate Disclosure Standards Board is providing a formal submission to the Consultation via the online form. We are providing responses to questions 3a, 3b, 5 – 8 inclusive and questions 10a, 10b and 11. We have not answered questions 4, 9 or 14 – 18 inclusive as these are directed at reporting organizations. However, we refer you to the World Business Council for Sustainable Development's response for views from reporting organizations. Similarly, we have not answered questions 12, 13a and 13b, which are primarily directed at investors. This document encapsulates all of our comments in support of our formal online submission.

The Climate Disclosure Standards Board (CDSB) is an international consortium of 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 information with the same rigour as financial information. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

Recognizing 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.

Our formal submission and this document have been prepared in consultation with our Board and Technical Working Group members who are listed in the appendix.

As well as our board members, we work closely with others and would like to highlight the submissions provided by We Mean Business, WWF, 2 Degree Investor Initiatives (2DII), Client Earth, PRI and the Corporate Reporting Dialogue (CRD). These are organizations with which we maintain open engagement channels and we value their expertise.

Question 3a – How useful are the Task Force's recommendation and guidance for all sectors in preparing disclosures about the potential financial impacts of climate-related risks and opportunities?

1) Answer: Quite useful although we have highlighted some specific concerns in our detailed response below.

Question 3b – Please provide more detail on your response in the box below

2) Our more detailed responses cover:

a) Materiality (paragraphs 3 – 25);
b) Interaction between climate-related financial disclosures and the existing mainstream reporting model (paragraphs 26 – 30);
c) Status of the recommendations (paragraph 31); and
d) Structure of the recommendations (paragraph 32)

Materiality

3) The TCFD's recommendations would benefit from more detailed guidance on the purpose and application of the concept of materiality. In the absence of guidance, the recommendations run the risk of failing to elicit material, consistent, comparable and decision-useful information from reporting organizations. We suggest that detailed guidance should take account of the following matters on which we elaborate below:
   a) The interaction between the TCFD's recommendations and existing approaches to materiality;
   b) The application of materiality in relation to:
      i) Past/known and future events/risks; and
      ii) Entity specific and systemic risks.
   c) The application of materiality in response to voluntary, principles-based reporting recommendations;
   d) Expectations about how reporting organizations should disclose their processes for identifying material climate change-related financial information;
   e) The expectations and actions of the audience for reported climate change-related financial information.

The interaction between the TCFD's recommendations and existing approaches to materiality

4) We agree with the characterization of climate-related financial disclosure as an existing reporting obligation associated with the requirement to disclose principal risks. We also agree, in principle, with the TCFD's conclusion that the processes used by companies for identifying material risk should be equally applicable to climate risk[1]. However, whilst processes for identifying material items in mainstream reports are in place, the application of materiality within the mainstream reporting model, including to the preparation of financial statements, is acknowledged as being problematic.

5) For example, the IASB refers to the "difficulties [in] applying the concept of materiality in practice when preparing financial statements [and that they] contribute to a disclosure problem…inappropriate materiality assessments, irrelevant information being disclosed and material information being omitted." As part of its "Disclosure Initiative," the IASB therefore issued in October 2015 a draft IFRS Practice Statement on the Application of Materiality to Financial Statements. The practice statement notes that time pressures on corporate resources and aversion to risk make it easier for management to include immaterial information in financial statements rather than to monitor on an on-going basis whether that information is material and/or to justify the removal of disclosures to auditors and regulators. Its key characteristics are to be addressed in a "Principles of Disclosure" Discussion Paper to be issued by the IASB in the first half of 2017.

6) In their 2015 Corporate Reporting Review, the UK FRC noted "how some Boards assess materiality" and provides a case study (in Chapter 5) illustrating the effect on disclosure of

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[1] The TCFD states that companies should:

- Determine materiality using an approach consistent with the way in which they determine the materiality of other risks affecting their business and with financial filing requirements; and
- Use their extensive experience in evaluating the materiality of particular risks.

over-reliance on quantitative materiality arguments and mixed signals from investors.

7) As well as difficulties associated with the application of materiality to existing elements of mainstream reports (e.g.; financial statements), our experience and the research described in paragraphs 7a and 7b below shows that, except in isolated cases, material climate change-related disclosures in mainstream reports are rare, even where there are legal obligations or authoritative pronouncements requiring such disclosures. For example:

   a) In February 2010, the US Securities Exchange Commission (SEC) asked its registrants to report on climate risk as part of their existing general risk reporting duties under Regulations S-K and encouraged companies to "err on the side of materiality". However, research by CERES[2] and the SEC's 2016 Concept Release on reporting both acknowledges the poor response to the SEC's 2010 guidance on climate risk. We believe that the weak response to the SEC's 2010 guidance (which shares many characteristics with the Task Force's recommendations) is partly attributable to the problem referenced in the TCFD's Phase 1 report (page 15) about the "considerable disagreement over what constitutes a "material" climate risk that triggers disclosure requirements in most jurisdictions" - despite the fact that existing laws and regulations already require disclosure of climate-related risk in financial filings if it is deemed material.
   b) The UK Companies Act 2006 now requires disclosure of greenhouse gas emissions and other environmental information, but CDSB's research[3] into the FTSE 350's response to these requirements found that 44% of companies that did not disclose information cited materiality as the main reason for the omission.

8) Although climate change–related disclosure through mainstream reporting channels appears to be relatively rare, many organizations are providing such information through CDP responses and their sustainability reports. Leading research by WBCSD[4] reveals a significant discrepancy between the way in which companies identify material risks in their sustainability and mainstream reports respectively. In particular, only 29% of the issues deemed to be "material" in a sustainability report were disclosed in the company's mainstream report. 35% of companies examined for the purposes of the research did not disclose in their mainstream filings *any* of the sustainability risks identified in their sustainability reports. This suggests the need for guidance on the relationship between identifying material issues for sustainability and mainstream reporting purposes respectively, also taking into account the different audiences and user groups for those sources of information (see also paragraphs 20 - 24 below).

9) As the Phase 1 report admitted (page 8), the issues[5] that the TCFD seeks to address reflect, (inter alia), "the divergent range of approaches [to climate reporting and] the lack of consensus around what constitutes a material climate risk, which has led to a corresponding lack of consistency, comparability, reliability, and clarity of the information provided". However, those apparently divergent approaches share some characteristics and have been designed to bridge the gaps that current approaches to materiality leave in disclosure of environmental and other information. For example the following the resources provide guidance that might be usefully incorporated into the TCFD's recommendations on the application of materiality:

   a) In "Identifying natural capital risk and materiality," the ACCA, Fauna and Flora and KPMG reviewed the disclosures of ten companies from sectors with a high impact on natural capital and found that materiality assessments depend on:
      i) The scope of issues considered by the company including economic, social and environmental issues;

[2] www.ceres.org/resources/reports/cool-response-the-sec-corporate-climate-change-reporting/view
[3] http://www.cdsb.net/comply-or-explain-review-ftse-350-companies%E2%80%99-environmental-reporting-annual-reports
[4] Sustainability and enterprise risk management: The first step towards integration WBCSD January 2017
[5] See for example Chapter A, Background paragraph 3.

   ii) The stakeholder groups considered;
   iii) The timeframes over which issues are taken into account.

b) The IIRC and the International Federation of Accountants reached similar conclusions in their publication "Materiality in Integrated Reporting." For the purposes of Integrated Reporting, materiality assessments depend on:
   i) The scope of issues considered - Generally how strategy, governance, performance and prospects, together with external factors, influence the organization's ability to create value;
   ii) The purpose of the report which, in the case of <IR> is to explain to providers of financial capital how the organization creates value over time;
   iii) The audience or stakeholder groups considered.

c) SASB's approach to Materiality and Standards Development is fully set out in their Staff Bulletin[6].

10) There are other examples too. However, the point we wish to make for the purposes of the TCFD's consultation is that the approaches developed by NGOs and others seek to address the "considerable disagreement over what constitutes a "material" climate risk that triggers disclosure requirements" and to complement materiality approaches used for mainstream reporting. Complementary activity is required because mainstream reporting predominantly focuses on past periods of reporting. The nature of climate "risk" is that it is uncertain and primarily affects future periods with uncertain timing. The TCFD's conclusion that existing materiality processes used for identifying business risks in mainstream reports can apply equally to climate risk presupposes that climate risks are like other business risks. To some extent climate risk is indeed like other business risks that have the potential to affect a company's liquidity, capital resources, net sales, revenues, income from continuing operations and future operating results and financial condition. However, given the uncertainty associated with climate change impacts, some aspects of climate risk are uncertain and difficult to quantify as distinct from a measurable risk. WBCSD's research[7] reveals that sustainability practitioners and risk management professionals struggle to integrate sustainability into mainstream risk management despite 89% of interviewed practitioners agreeing that sustainability risks could have a significant impact on the company's financial performance. We think that this is because climate risks (as a sub-set of sustainability risks) are different from other business risks.

11) In summary, NGOs and others seek to complement mainstream materiality approaches in recognition of the unique characteristics of climate (and other social and environmental) risks. Furthermore, many companies rely on materiality approaches developed by NGOs and others precisely because mainstream processes are not squarely designed to cater for identification of material climate (and other social and environmental) risks. As currently drafted, the TCFD's recommendations state that companies should:

   a) Determine materiality using an approach consistent with the way in which they determine the materiality of other risks affecting their business and with financial filing requirements; and
   b) Use their extensive experience in evaluating the materiality of particular risks.

12) This presupposes that those existing approaches and experience levels are adequate for the purposes of identifying material climate related risks and opportunities. For the reasons outlined above, we do not believe this to be the case. We therefore recommend that the TCFD undertakes or commissions work on how the approaches developed by SASB, the IIRC and others could be used to identify material climate risk and to

[6] https://library.sasb.org/materiality_bulletin/
[7] http://www.wbcsd.org/Projects/Non-financial-Measurement-and-Valuation/News/Launching-WBCSD-report-Sustainability-and-enterprise-risk-management

complement the way in which materiality is applied in identifying other business risks.

The application of materiality to: a) Past/known and future events/risks; and b) Entity specific and systemic risks.

13) We think that there is a distinction between matters that need to be disclosed because they:
    a) Represent known climate risks and events that have affected, or already materially affect, a business, its strategy and financial planning. We would say that this type of disclosure is already required by the mainstream reporting model because it relates to entity-specific risk. The IASB issued a Practice Statement on Management Commentary in December 2010 confirming that, "management should include information that is material to the entity in management commentary. Materiality will be different for each entity. Materiality is an entity specific aspect of relevance; thus information that is relevant for an entity will also be material." We think that this is reflected in the TCFD's "Strategy" recommendation and associated guidance under recommended disclosure (b) which asks organizations to disclose "how identified climate-related issues *have* affected their businesses, strategy and financial planning";
    b) Relate to assumptions and estimates about the future that are already catered for in mainstream reporting practice, such as certain balance sheet entries that estimate future cash inflows (assets) and outflows (liabilities), or that entries required to establish the business as a going concern. Again, we would say that this type of disclosure is entity-specific and already catered for in the mainstream reporting model;
    c) Relate to future risk beyond the business' normal planning horizon. The Task Force's recommendations on scenario analysis are very helpful in this regard as, against a background of uncertainty, they help companies to explore alternatives that might affect their business-as-usual assumptions. We suggest that the TCFD clarifies whether its warning that companies should "avoid prematurely concluding that climate–related risks are not material based on perceptions of their longer-term nature" is designed to apply specifically to scenario analysis rather than the types of disclosure referred to in a and b above and d below.
    d) Matters of systemic importance where the organization is required to report information that can be assessed at aggregate level by policy makers and on behalf of society and because the subject matter is always relevant to the organization's license to operate. In the UK there are a number of reporting requirements that fall into this category, such as the requirement to report on gender and GHG emissions. As well as being designed to elicit disclosures that inform investors about entity-specific risks to companies, the TCFD's recommendations also aim to "provide a source of data that can be analysed at systemic level to facilitate authorities' assessments of the materiality of any risks posed by climate change to the financial sectors and the channels through which this is most likely to be transmitted" (page 23). Therefore, whilst Principle 1 (Appendix 6) states that companies should eliminate disclosures if they are immaterial, it goes on to say that " when a particular risk or issue attracts investor and market interest or attention, it may be helpful for the organization to include a statement that the risk or issue is not significant [to show that it] has been considered and has not been overlooked." We think it would be hard for any company to argue that climate change risk has not attracted investor or market interest and therefore imagine that, in the absence of guidance on when organizations should make statements on immaterial items (or presumably those that are not material at entity-specific level) organizations will err on the side of caution and report against all the recommendations.

14) We agree that climate-related financial information is useful both for assessing entity-specific and systemic risk and that disclosures should be made for both purposes. However, the quality, quantity and type of information that is required for those respective types of risk will be different. For material entity-specific risk, specific,

preferably quantitative, verifiable/assurable information should be disclosed. The quality of information required to help others assess systemic risk in aggregate is different and likely to be more qualitative and even speculative. In the UK, requirements on gender and GHG emissions reporting are required only "to the extent necessary for an understanding of the business" (presumably then, only if material to the business's ability to create value). We therefore recommend that the TCFD should distinguish between the expectations and categories of disclosure as outlined above and how materiality or other processes, (such as risk watch-lists), are to be applied in relation to each category.

The application of materiality in response to voluntary, principles-based reporting recommendations

15) The TCFD's recommendations are both principles-based and to be applied on a voluntary basis. Accordingly, we would expect (subject to our comments on matters of systemic importance above), the application of materiality, rather than prescribed data/information points, to guide what and to what extent a company responds to the recommendations. We therefore find it very confusing to see the reference on page 35 of the main report to "some of the Task Force's recommended disclosures [being] line item disclosures" as opposed to others that "involve an assessment of materiality." This is repeated on page 7 of the Annex. The TCFD does not identify which recommended disclosures are line items and which require an assessment of materiality. We infer from the text in the final paragraph on page 35 that the recommended disclosures under the headings governance and risk management represent line item disclosures as they provide the context necessary for an understanding of any other disclosures that are made based on materiality assessment. However, this is a tentative conclusion based on the single reference to "line items" on page 35 of the main report. We also wonder whether the use of the phrases "organizations should" as opposed to "organizations should consider" in the recommendations are designed to distinguish line items from disclosures that require materiality assessment or whether the TCFD is trying to distinguish items that need to be recognised in the financial statement "lines" such as liabilities from narrative disclosed in the notes or elsewhere in the mainstream report.

16) We recommend that the TCFD clarifies whether line items are actually required or appropriate in a principles-based, voluntary reporting framework. If so, the TCFD should identify the line items concerned and explain the rationale for their appearance in a voluntary standard and how (if at all) materiality applies to those items.

Expectations about how reporting organizations should disclose their processes for identifying material climate change-related financial information

17) Given the difficulties associated with the application of materiality outlined above, we consider it to be vital for reporting organizations to explain the process they have used to identify material items for disclosure. We therefore support the guidance for all sectors in both Strategy 2 a) and Risk Management 3 b) respectively which recommends the disclosures outlined below, although we ask the TCFD to consider whether these pieces of guidance ask for the same content or is there a key distinguishing feature that would lead to different disclosures in response to (a) and (b) respectively?

    a) The process(es) used to determine which risks and opportunities could have a material financial impact on the organization; and
    b) The processes for prioritizing climate-related risks, including how materiality determinations are made within their organizations.

18) As noted above, it is difficult to set specific parameters for the application of materiality or to connect or reference to financial reporting concept of materiality. By focussing on the materiality process, we hope that those charged with governance of organizations and those who read the mainstream reports would be satisfied that preparers have been through an appropriate materiality determination process. The strength of the materiality

process could be tested by users or information instead of or as well as a materiality approach used for mainstream reporting, with appropriate complementary guidance from NGOs and others.

19) The materiality process description could also be used to explain how companies approach information that presents a reporting dilemma. As the IASB's October 2015 IFRS Practice Statement on the Application of Materiality to Financial Statements says "time pressures on corporate resources and aversion to risks make it easier for management to include immaterial information in financial statements rather than to monitor on an on-going basis whether that information is material and/or to justify the removal or disclosures to auditors and regulators." Given the potential volume of information that could be reported in response to the TCFD's recommendations, we believe that the materiality process should also be used to explain management's decisions on where to put information. For example, it might be appropriate for information that is material at entity level but systemically important to be reported outside the mainstream report.

The expectations and actions of the audience for reported climate change-related financial information

20) The identification of material matters is influenced by:
    a) The way in which management and those charged with governance apply the concept of materiality (informed by mainstream and NGO-developed approaches) based on their knowledge of the business (as discussed above); and
    b) The needs and expectations of the users of reported information. We agree with the Task Force that it is important to address the demand side for climate-related financial information.

21) We referred above to leading research by WBCSD[8], which reveals a significant discrepancy between the way in which companies identify material risks in their sustainability and mainstream reports respectively. We think this is partly attributable to a lack of understanding about what type and quantity and presentation of information users of mainstream reports, in particular investors and capital providers want and need from reporting organizations. To date, investors and capital providers have not been clear about the type of climate-related financial information they want, particularly in relation to systemic risks, nor what (if anything) they will do with the information.

22) We appreciate and endorse the TCFD's efforts to make the needs of investors and capital providers clearer. In particular, the rationale provided against each of the illustrative metrics in the implementation guidance gives some insight into why particular pieces of information might be of material interest to users of mainstream reports. However, in most cases the "rationale for inclusion" relates to investors' needs to make decisions about future cash flows, earning capacity, expenses and asset values. The focus is on whether investors will make money and by contrast, there is relatively little attention to decisions about the way in which the company is exercising stewardship over common resources in its transition to a low-carbon economy (which we consider to be equally material). We encourage the TCFD to work with investors and capital providers to ascertain what precisely is material to them.

23) A case study in the UK FRC's 2015 Corporate Reporting Review, although not focussed on climate-related financial disclosure, illustrates the intersection between the application of materiality and unclear messages from the reporting organization's investors.

24) The case study provided in Chapter 5 of the FRC's review refers to an isolated error in pension accounting that had resulted in the overstatement of net assets on the closing balance sheet for 2013. Despite the fact that the error exceeded by approximately five

[8] Sustainability and enterprise risk management: The first step towards integration WBCSD January 2017

times the level of materiality disclosed by the auditors in their 2013 opinion and was roughly equal in size to the total movement in the company's other comprehensive income for 2014, the Audit Committee and auditors decided that it was not material and the effect was not therefore disclosed or corrected by way of an adjustment. Rather, it was included with other actuarial gains and losses arising from changes in the valuation of pension assets and liabilities. When challenged by the FRC, the company argued that the auditor's disclosed level of materiality was relevant only to the income statement and profit for the year and not to other comprehensive income because investors only focus on the profit component of performance. As evidence, it said that it did not receive questions from investors or business analysts on the components of other comprehensive income. Furthermore, when compared against net assets or equity, the error was not quantitatively material.

Conclusions on TCFD recommendations and materiality

25) We appreciate that the TCFD cannot resolve the multiplicity of definitions, approaches to and understanding of materiality across jurisdictions and that some variation is inevitable due to legal and national considerations. However, we think that the TCFD could do more to:
    a) Guide companies on how to apply the concept of materiality to climate-related financial disclosures, drawing on the guidance developed by NGOs and others;
    b) Distinguish between the application of materiality (and the associated disclosure expectations) to known and future risks and entity specific and systemic risks respectively;
    c) Amplify and expand on requirements to disclose the process used for identifying material items, including the process for determining where to report information so that the volume of information in mainstream reports does not obscure material items;
    d) Explain the needs of users of information in mainstream reports and the actions and decisions that they make based on reported information;
    e) Consider the necessity of repeatedly using phrases such as "where relevant" and "if appropriate." Our understanding is that the guiding principles apply to all disclosures and that if they are used appropriately, disclosures will by definition be relevant.

Interaction between the TCFD recommendations, regulation and the existing mainstream model

26) Whilst the recommendations do a good job of cross-referring to specific metrics and disclosure principles, particularly from voluntary regimes, we do not think that the recommendations give sufficient attention to the way in which they interact with existing regulation and current mainstream reporting practice generally. For example, recommendations 2 a) and b) require a company to describe risks and opportunities and the impact on strategy and financial planning. In the UK these requirements already exist (though not specifically, only by extension to climate change) as according to the Companies Act 2006 (CA 2006) companies must provide 'a fair review of the company's business' (S414C (2)(a) CA 2006) including a proper account of 'the main trends and factors likely to affect the future development, performance and position of the company's business', (S414C (7)(a) CA 2006); and a proper 'description of the principal risks and uncertainties facing the company', (S414C(2)(b) CA 2006). These requirements are supported by Financial Reporting Council's – Guidance on the Strategic Report, which provides assistance on the disclosure of non-financial risks and key performance indicators. As another example recommendation 3a states that organizations should describe whether they consider existing (and emerging) regulatory requirements related to climate change. Similar considerations apply to Article 19 and Article 19a of the EU Accounting Directive requirements.

27) Many G20 countries already require disclosure of climate-related risks in mainstream filings and corporate reports. This is jurisdiction-specific and we think that it is safe to assume that organizations must and do consider existing regulatory requirements, which, in some jurisdictions might be as, or more detailed as the TCFD's recommendations. We suggest that the TCFD makes it clear that organizations should obtain their own legal and accounting advice about their existing disclosure obligations in each jurisdiction and how a company is to proceed where national law intersects, conflicts with or differs from the TCFD's recommendations.

28) A specific example appears in relation to recommended disclosure 4b where organizations are advised that GHG emissions should be calculated in line with the GHG Protocol. We agree with the footnote, which identifies the GHG Protocol as being the most widely recognized and used international standard for calculating GHG emissions. However, in some jurisdictions, such as France where *Bilan des émisions - Decree No. 2015-1738 applies*, Australia where the *National Greenhouse and Energy Reporting (NGER) Act, 2007 applies* and the US where *EPA Mandatory Reporting of Greenhouse Gases Rule 2009 applies*, specific requirements to calculate GHG emissions are prescribed by law.

29) A more general example relates to recommended disclosure 2b where companies are asked to provide a holistic picture of the interdependencies among factors that affect their ability to create value. A cross-reference to the Integrated Reporting Framework might help companies respond to the recommendation concerned. Also, as details of the reporting organization's strategy are likely to have been covered in other parts of the mainstream report, we suggest that the TCFD adds guidance to its next iteration of recommendations that encourages cross referencing to information reported elsewhere in the mainstream report, or to other documents in order to avoid duplication and keep disclosures manageable whilst enabling the reader to find contextual information.

30) We very much welcome Section E of the TCFD's report acknowledging issues that require further work. We are concerned about some of the statements in paragraph 7 on accounting considerations. First, we do not agree that "the Task Force's disclosure recommendations will result in more quantitative financial disclosures…about the financial impact that climate-related risks have or could have on an organization" except where already required (see paragraphs 13a and 13b above). Secondly, we do not agree that asset impairments will necessarily result from assets adversely impacted by the effects of climate change. CDSB's "Carbon Asset Stranding Risks" paper shows that certain oil reserves for example, despite meeting the definition of "assets" are not subject to impairment rules unless and until they are "recognized" as assets on the balance sheet. We do not think that the (appropriately) restricted nature of the IASB and FASB's financial reporting standards allow for many of the types of disclosures the TCFD anticipates.

Status of the Recommendations

31) In footnote 26 on page 14 of the main report, the TCFD encourages reporting organizations to provide the rationale if they omit any recommended disclosures. This attaches to a comment in the main text, which recommends that all financial and non-financial organizations with public debt or equity should implement its recommendations. In the Q&A on page 7 of the Annex, organizations are advised that where a recommended disclosure is not made, they should provide their rationale for omitting the disclosure. We believe that one of the main benefits of the TCFD's recommendations is that they represent authoritative guidance when compared with Frameworks issued by non-governmental organizations requesting the same or similar information. The authority that the TCFD, with its backing by the FSB and G20, brings to disclosure has the potential to address the problems of poor disclosure outlined in the Phase 1 report. However, the very tentative approach to dealing with the status of the recommendations by way of a footnote in the main document seems to us to undermine what the TCFD seeks to achieve. We recognize the difficulty of trying to negotiate the different concerns and preferences of

Task Force members on status as we imagine that it is a contentious issue. However, we recommend that rather than include a rather weak and tentative footnote on the intended status of the recommendations, the Task Force should either:

a) Acknowledge that some companies might struggle to apply the recommendations while they build reporting capacity and offer a defined route for those companies to claim partial or even intended conformance with the recommendations, or
b) For others state that if companies choose to adopt the recommendations, they should do so in their entirety.

Structure of the Recommendations

32) The way in which the recommendations encourage categorization of disclosures, metrics and risks is helpful and has the potential to start the development of a standard taxonomy on climate disclosure for international use. However, there are a number of areas where the interrelationships between the recommendations should be explained (see below) and where the actions and processes organizations could follow to provide connected, coherent, consistent and comparable disclosures should be described.

    a) **Climate change, strategy and performance -** Whilst the recommendations and accompanying guidance (2 b)) ask organizations to disclose the impacts of climate-related risks and opportunities on their strategy, organizations are not actually asked to disclose their strategy on climate change. This means that it might not be clear from disclosures what the origin of those mitigation and adaptation activities is – for example whether they originate from the organization's general strategy, its specific strategy on climate change or from regulation etc. Furthermore, in the absence of information about the organization's climate change strategy (as opposed to or as part of the overall business strategy), answers to questions about mitigation expenditure (see for example 4b) for the energy sector) will lack contextual information. We agree that an organization's climate strategy should be embedded in their overall strategy. However, unless already disclosed in other parts of the mainstream report, we believe that the TCFD's recommendations should specifically ask for details of the organization's climate strategy and whether for example, it involves reductions of GHG emissions, efficiencies, diversification or offsetting. The recommendation could be included in Strategy 2b) so that, as well as asking companies how they make decisions to mitigate, transfer, accept or control risks, disclosures are elicited about whether and to what extent those decisions are influenced by the companies' climate strategy and/or Metrics and Targets 4a) c) so that any link between targets and strategy is clear.

    b) **Relationship between Strategy, Risk Management and Scenarios -** We strongly support recommendation 3 c) asking organizations to disclose how their processes for identifying climate related risks are integrated into overall risk management processes. However, we encourage the TCFD to provide further guidance that describes how organizations should approach the integration through formal tools and techniques, decision trees, value at risk, stress testing, scenario analysis, forecasting, modelling uncertainty, quantification etc.

    c) In addition, recognizing that the risk management process is likely to include scenario analysis we recommend that the TCFD does more to explain the relationship between recommendations on Strategy b) c) and Risk Management b) c). It is likely that organizations' existing Risk Management processes for other principal risks will involve scenario analysis (e.g. market expansion, cyber security, supply chain disruption etc.). Established risk scenario analysis focuses on identifying potential scenarios caused by existing and emerging risks, risk consequences, and risk plans. The scenarios should be plausible, relevant, and challenging combinations of potential risks in terms of such things as events and trends. We think further guidance would be helpful on how (if at all) climate scenario analysis relates to existing scenario analysis within companies.

WBCSD's research proves that even companies with leading sustainability practices have difficulty in integrating sustainability issues into their main ERM processes.

d) We welcome the supplementary guidance on Scenario Analysis and the inclusion of scenario impacts as a recommended disclosure (2 c). However, we think that further clarification is needed on the disclosure requirements related to scenarios. Figure 7 on page 31 of the main recommendations outlines disclosure considerations for non-financial organizations with 'significant exposure to climate-related issues' including inputs, adjustments, assumptions, timeframes and conclusions. The disclosures organizations are asked to consider in Figure 7 move beyond the outcome and implications for strategy and financial planning recommended in Strategy c). However, it is unclear how these more comprehensive suggestions relate to the main recommended disclosures, despite some clear overlaps with Strategy a) b) and Risk Management b) c). We suggest that further clarification on how recommendations and guidance on scenario analysis fit together is important as Scenario Analysis is a key differentiating factor between TCFD Recommendations and existing requirements, and businesses that are leading climate disclosure are likely to be keen to respond to the gap in disclosure requirements that has now been filled by the TCFD.

Question 3c - Supplemental guidance - 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.

33) Answer: Quite useful subject to our response to question 3d.

Question 3d - Please provide more detail on your response in the box below

Where preparers should disclose

34) Comments on Q&A b on Page 5 regarding where preparers should disclose – We note from this question and answer that websites and sustainability reports may be an interim step on the path to disclosure in mainstream financial filings. This seems to be at variance with the statement on page 7: "an important aspect of the Task Force's recommended disclosures is their inclusion in organizations' mainstream financial filings…to ensure that appropriate controls govern the production and disclosure of the required information and so that users will be able to access current information in a timely way as mainstream filings require publication at least annually." It also contradicts the emphasis in the recommendations on companies using the same governance and sign-off processes for climate related disclosures as for other information in mainstream filings.

35) However, the advice that companies could use websites and sustainability reports as an interim step seems to us to acknowledge the practical difficulties that some organizations will experience in incorporating climate information into mainstream reports. Question 18 of the consultation also seems to acknowledge this practical difficulty. We agree that some companies will struggle to integrate climate change-related information into mainstream reports The mainstream reporting model is determined and influenced by (inter alia) the work of financial standard setters such as the International Accounting Standards Board and the Financial Accounting Standards Board, corporate governance regulators, Stock Exchanges, corporate law and enterprise risk management standard setters[9]. Although the content elements of climate reporting (i.e.: what should be reported) are fairly well established, they have been developed mostly outside the mainstream-reporting model (i.e.: to enable voluntary and sustainability reporting). There is no agreed practice or equivalent infrastructure for incorporating climate change information into mainstream reporting practice and it is not clear whether or how the existing mainstream infrastructure applies to climate change reporting.

[9] For example, the Committee of Sponsoring Organization of the Treadway Commission (www.coso.org)

36) In the circumstances, we recommend that:
    a) If climate change-related financial disclosures are to be incorporated into mainstream reports, the TCFD should provide guidance on:
        i) Which part or parts of the mainstream report are most appropriate for the integration of climate change-related information? For example, would recommended disclosures about governance appear in the governance section of the mainstream report?
        ii) Provide guidance on how to integrate climate information into mainstream reports. SASB has examples which might help on how to link into items 101, 103 and 503(c) of Regulation S-K;
        iii) How disclosures and their placement in mainstream reports link back to Table A3.1 so that it is clear exactly where (i.e., reporting section), in what detail (i.e., expected length and volume of disclosure), and in what format (i.e., broken out into many sections, incorporated by references to other reports, or as one continuous narrative – or any is acceptable/preferred) the particular disclosure should appear.
        iv) How disclosures should be linked to information outside the mainstream report that provides greater detail for readers.
    b) Where climate change-related financial disclosures are made through other channels, the TCFD should offer a defined route and continuous improvement steps to be followed in order to achieve mainstream reporting.
    c) If disclosures are made outside the mainstream report, they should nevertheless conform as closely as possible to the TCFDs objective and recommendations and should therefore link climate disclosure with financial impacts. Furthermore, navigation from the mainstream report to other reporting channels should be clear so that users know where to find information.
    d) The TCFD should consider the assurance implications of allowing information to be reported through multiple channels outside the mainstream report.

Reporting period

37) Comments on Q&A e page 5 about the reporting period preparers should use - We agree that the reporting period for climate change-related information should be the same as that covered by the reporting organization's mainstream financial report. One of our Technical Working Group members tells us that it is difficult for users of information to complete their analyses where the periods for which financial and non-financial information do not match. We acknowledge that companies might struggle with this in the first instance. We believe that the difficulties they may face are primarily practical and stem from the fact that systems and mechanisms for collecting non-financial information are not as sophisticated as for financial information and lack infrastructure such as "hard close" requirements.

38) If, as in the placement of information, some flexibility is required in relation to timing, we recommend that climate information should be prepared for the same period as financial information, normally 12 months, but that where the 12-month period does not match that of the financial statements, it should be treated as coterminous with the financial reporting period provided that it falls within the period covered by the mainstream report.

39) We also recommend that the Task Force considers whether organizations need to report certain information every year, or say, every three years. In particular, some information about climate related risks and opportunities might stay the same for a number of years and this type of "here to stay" information should be distinguished from information that is likely to change year on year. For the former category, we suggest that disclosure is only required every three years provided that the organization conducts an annual review of the information and confirms that nothing has changed.

Financial impact

40) Comments on financial impact - We note from the "financial impacts" section on page 10 of the main recommendations report that investors, lenders and others "need to understand how climate-related risks and opportunities are likely to impact an organization's future cash flows and its assets and liabilities in order to make more informed financial decisions." As noted elsewhere in this report, we encourage the TCFD to work with the IASB and others to consider the dilemmas that this might present for companies where disclosures of "likely" impacts are not required by or otherwise catered for by existing financial reporting standards because they do not satisfy recognition criteria. For example, if measurable risks to physical assets are identified, those assets cannot necessarily be impaired if they are not recognized as assets for financial reporting purposes[10]. In other words, how can companies be encouraged to report on financial impacts when they are not required to do so under existing financial reporting standards and/or recognition criteria suggest that such disclosures would not be appropriate? The use of the word "likely" on page 10 of the main recommendations has led two of our Technical Working Group members to suggest that there might be helpful material in IAS 37 Provisions, Contingent Liabilities and Contingent Assets. As we understand it, IAS 37 acknowledges that information can be required about contingent assets and liabilities even where they do not meet recognition criteria. We invite the TCFD to consider whether a similar approach could be applied to contingent financial consequences of climate change in target sectors. For example, potential loss of revenues, stocks or contracts in target sectors under different climate scenarios at the regional level, especially in the agri-business, water sector and associated financial services.

41) We suggest that it might be helpful for the TCFD to categorise financial impacts as follows:
    a) Financial impacts that require disclosure under existing financial reporting requirements or extensions of financial reporting approaches, such as IAS 36 "Impairment of Assets" and IAS 37 "Provisions, Contingent Liabilities and Contingent Assets";
    b) Potential financial impacts that should be taken into account for the purposes of financial planning over the reporting organization's normal planning horizons;
    c) Potential financial impacts over longer time horizons as identified by reference to scenario analysis. As noted in paragraph 61 below, we recommend that the TCFD also clarifies the purpose of scenario analysis, for example, to prove business model resilience or capital adequacy under particular scenarios.
    d) Sector focussed impacts. In the same way that the FSB identifies Global Systemically Important Banks, we wonder whether there is merit in identifying sectors most likely to be affected by financial impacts from climate change and ask them to report on financial impacts likely to affect those sectors.

Financial and climate impact categorization

42) Comments on financial and climate impact categorization - We support the way in which the recommendations encourage categorization of disclosures, metrics and risks as this has the potential to start the development of a standard taxonomy on climate disclosure for international use. However, we have some concerns about the way in which financial and climate impacts are categorized as follows:

    a) Financial categories - Organizations in the four non-financial groups are encouraged to consider the current and forward looking financial implications of transition and physical risks and opportunities in the following areas to help them determine their relevance for informing investors:
    Revenues, expenditures, assets/liabilities, capital

    b) Climate–related categories - In Tables 2, 4, 6 and 8, we see that a further type of category – the "climate-related category" is introduced. The climate-related categories

[10] See for example CDSB's report on Carbon Asset Stranding Risks. Fossil fuel reserves do not necessarily meet the criteria for recognition as assets on the balance sheet and therefore cannot be impaired.

are:
GHG emissions, low-carbon alternatives, energy use/efficiency, Water, Reserves/Assets.

43) Whilst we very much support the idea of categorization, we note that the climate-related category is first introduced in Tables 2, 4, 6 and 8 with no associated explanation. We strongly encourage the TCFD to provide some guidance on the purpose of the climate-related categories and their interaction with financial categories. The Phase 1 report (page 15) referred to different ways in which climate-related risk are described and we wonder whether by introducing the "climate-related categories", the TCFD is trying to address the fragmentation to which the Phase 1 report refers. Is the TCFD seeking to limit or focus the range of disclosures that companies make to ensure that they are both climate related and financial related?

44) We note that, with a few exceptions (for example, investment in low-carbon alternatives), the suggested metrics for the non-financial sectors in the Annex rarely result in quantitative financial disclosures. This is at variance with the statement in section 7, Chapter E of the main report, that "in most G20 countries, financial executives will recognize that the Task Force's disclosure recommendations will result in more quantitative financial disclosures, particularly disclosure metrics, about the financial impact that climate-related risks have or could have on an organization." Although climate-related and financial categories are distinguished in the recommendations, there are few cases in which the metrics associated with either of them give rise to quantitative financial disclosures and we therefore question the purpose of the financial categorization.

45) Whatever the rationale for the combination of climate related and financial categories together or individually, we suggest that the TCFD commissions further work on the protocols that should be used for such measures. It might be worth looking at the work that has been done by IFAC, the SEC, ESMA[11] and IOSCO[12] on non-GAAP measures.

Consistency in financial categorization

46) Comments on lack of consistency in financial categorization **–** There is some lack of consistency in the way in which the categories are set out between industry groups and we are not sure whether this is accidental or intentional. The following table illustrates the issue. You will see that, in relation to recommended disclosure 2b, R&D is always referred to as expenditure and this is consistent for the four industry groups identified in the table below. However, in recommended disclosure 4a on metrics and targets, R&D is categorized as "revenue" for energy and agriculture groups and as capital for transportation and materials and buildings. We are not sure whether this is intentional. Similar apparent lack of consistency is seen in the metrics tables for the four industry groups as shown on the last row of the table. The table suggests that R&D can fall into any of the four financial categories except assets and liabilities.

		Energy	**Transportation**	**Materials and buildings**	**Agriculture, food and forest products**
Strategy Recommended disclosure b	R&D expenditures, adoption of new technology and costs of key inputs	Expenditures (page 50)	Expenditures (page 62)	Expenditures (page 74)	Expenditures (page 87)

[11] https://www.iasplus.com/en-gb/news/2015/06/esma-apm

[12] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD532.pdf.

Metrics and targets Recommended disclosure a	Investment in low-carbon alternatives e.g., R&D, equipment, products or services	Revenues (page 52)	Capital (page 64)	Capital (page 76)	Revenues (page 89)
Metrics table	Investment in low-carbon alternatives e.g., equipment, products or services	Revenues - low-carbon alternatives (Table 2 (oil and gas) page 54)	Revenues – low-carbon alternatives (Table 4 (air freight) page 66) Capital – low-carbon alternatives (Table 4 (maritime) page 68)	Revenues/capital – low-carbon alternatives (Table 6 (metals and mining) page 78)	Revenues/capital – low-carbon alternatives (Table 8 (beverages) page 91)

47) We wonder whether this because there is some doubt amongst task force members about how financial reporting rules (such as IAS 38 – Intangible Assets) apply to R&D, which in some cases can be capitalized and in others is accounted for as expenditure. We strongly recommend that the next iteration of the recommendations explains the differences outlined in the table above. We welcome the Task Force's acknowledgement (in the main report, Section E, paragraph 7) that further work is needed on accounting considerations. We also agree with the comments in Section E, paragraph 4 that further work is needed to support data quality, accuracy and reliability in relation to disclosure of the financial impacts of climate change.

Financial category "Balance sheet – assets/liabilities"

48) Our first concern relates to the relationship between the TCFD's recommendations on disclosures in the "balance sheet – assets/liabilities" category and financial reporting standards. Although classified under the financial category "Balance sheet - assets/liabilities," our understanding is that the TCFD's recommendations are unlikely to result in actual adjustments being made to the assets and liabilities shown on company balance sheets unless and to the extent already provided for under financial reporting standards. For example, even where climate change has the potential to affect asset values, impairments will not automatically be made unless the assets concerned are "recognized" as such on the balance sheet and the impairment criteria in financial reporting standards therefore apply. We understand that certain oil reserves do not satisfy recognition criteria and would not therefore be impaired according to financial reporting standards even where climate risks had been identified. We anticipate that companies will have difficulty departing from the requirements of financial reporting standards and where they are at variance with the TCFD's recommendations, financial reporting standards are likely to be given priority for the purposes of financial statements.

49) Our second comment relates to the metrics in Tables 2, 4, 6 and 8 of the implementation guidance. The attached Table 1 shows all illustrative metrics from Tables 2, 4, 6 and 8 that are in the "assets/liabilities" financial category. We note that:
    a) The associated climate related categories are not consistently described. Sometimes the table shows "reserves/assets" together with a description of the type of reserve/asset to which the metric relates, for example GHG emissions or water. Other times the type of reserve/asset is simply named. We wonder whether this is deliberate?
    b) The rationale for inclusion of the metric sometimes uses the same narrative (see light green and dark green narrative), other times there are minor differences in the narrative for reasons that are not apparent.

c) Arguably, none of the metrics are financial measures. This is not, in itself, an issue. We agree that the metrics are potentially useful. However, we are questioning whether the metrics should be categorized as "assets/liabilities"?

d) As there is some repetition of metrics across the non-financial sectors, we think it might be more useful for a single list of metrics to be designed so that it is easier to achieve consistency between them and then state which groups the metrics are most likely to apply to as we have done on line 11 of the spread sheet. This ensures that a single metric is consistently applied across sectors. We appreciate however that the rationale for inclusion might change between sectors although there is limited evidence of this from the attached table.

Asset/liability metrics in financial category

50) Our third comment is about checking for consistency between metrics in the financial category "assets/liabilities" as set out in the Tables and text in the guidance. Supplemental guidance for the Energy Group in Metrics and Targets recommended disclosure (a) is also reflected in the metrics in Table 2. However, there is guidance for recommended disclosure b under "strategy" which also seems potentially relevant for inclusion in Table 2. We have put the two side by side in the table below to illustrate our query. We wonder why, for example, expected changes to the balance sheet or reserves (e.g. additional investments, restructuring, write downs or impairment) appear in the guidance on recommended strategy disclosure b but do not feature in Table 2. We encourage the TCFD to explain the relationship between the financial category disclosures in strategy recommended disclosure b and metrics recommended disclosure a. Similar comments apply to the relationship between the metrics in tables 2, 4, 6 and 8 and text in the guidance associated with strategy recommended disclosure (b), particularly guidance relating to financial planning. We believe that parts of the guidance on financial planning would be useful if added to the metrics tables. Finally, we suggest that the TCFD reviews CDP's Climate Change Information Request for the Oil and Gas sector as it contains some questions and data points that might be useful for inclusion in Table 2, such as values for annual gross and net production costs (OG1.2 2016) etc.

Supplemental guidance for the energy group		
	Strategy recommended disclosure b These are not necessarily reflected in Table 2	**Metrics recommended disclosure a These are reflected in Table 2**
Revenues	Carbon pricing assumptions, internal carbon price applied, assessment of potential impact on future operational revenues	Investment in low carbon alternatives e.g.: R&D equipment, products or services. [Note that although classified as under revenues in the guidance, this appears under both revenue and capital in Table 2).
Expenditures	Potential impacts of CRRO on cost of supply and strategy for managing these impacts relative to market demand and competition. Include discussions of R&D expenditure, adoption of new technology and costs of key inputs	Indicative costs of supply for current and committed future projects (e.g. through a cost curve or indicative price range) This could be broken down by product, asset, or geography. Current internal carbon price or range of prices used in financial planning and analysis. Measurement of water used or withdrawn in regions with high or extremely high baseline water stress.
Assets/liabilities	Existing and committed future activities, expected changes to the balance sheet or reserves (e.g. additional investments,	If relevant, a breakdown of reserves and/or long lived assets and an indication of associated emissions factors to provide insight into future emissions

	restructuring, write downs or impairment). Critical planning around legacy assets, e.g. strategy to lower carbon energy and water intensive operations	
Capital	How GHG emissions energy and water are taken into account in capital planning and allocation. Major acquisitions, divestments JV requirements and investments in technology innovation and new business areas in the light of changing CRROs. Consider providing an assessment of flexibility in positioning/repositioning capital to address emerging CRROs.	Metrics to indicate flexibility of capital deployment, portfolio allocation and capital payback. E.g.: Proportion of capital allocation to long lived assets vs short term assets Capital payback periods or returns on capital deployed Investments in low carbon technology e.g.: R&D technology products and services

Purpose of assets/liabilities financial category

51) Fourth, we invite the TCFD to clarify the purpose of the assets/liabilities financial category. In particular, the TCFD could consider whether the financial category "assets/liabilities" is actually intended to cause companies to make adjustments to figures on their balance sheets (normally the territory of financial reporting standard setters) OR to elicit disclosures that enable others to determine whether the balance sheet is resilient enough to withstand the climate risks identified by the reporting organization. We think that the TCFD's intention is closer to the latter. In particular, we think the TCFD is seeking information about the extent to which transition risks, including regulatory measures on climate or sustainable buildings and market risks relating to demand have the potential to affect the value of reserves or earning capacity from assets such as real estate and whether the balance sheet is strong enough to withstand value fluctuations. If this is correct, it would be helpful for the TCFD to clarify this.

Alternative categorizations rather than assets/liabilities

52) Since it is very unlikely that any of the illustrative metrics in Tables 2, 4, 6 and 8 will prompt changes to the balance sheet (unless already required by financial reporting standards), we suggest that rather than referring to concepts from financial statements in order to elicit disclosures, it might be more relevant and helpful for the TCFD's recommendations to consider using concepts and models to categorize or describe the types of disclosures they hope to elicit. Focusing on assets and liabilities as a disclosure category could lead some organizations to conclude that no disclosure is necessary on the basis that financial reporting standards do not generally require any adjustments to the balance sheet in relation to the types of transition and physical risk to which the TCFD's recommendations refer. We therefore encourage the TCFD to consider whether other concepts from accounting, corporate governance, risk management and compliance, particularly those that focus on forward looking performance, offer more appropriate "equivalents" or precedents for understanding and characterising the financial impacts of climate risk. It might be worth looking at the following examples *as well as* working with financial reporting standard setters so that accounting rules are developed to capture climate risk:
    a) The work that has been done on disclosures relating to Financial Instruments through IFRS 7;
    b) IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", which is designed to apply to disclosures that are not required on the balance sheet and offers definitions of "impact" and "likelihood" that might be useful in developing the TCFD's recommendations;
    c) Concepts of capital adequacy, including natural capital adequacy, which is potentially relevant to metrics in the climate-related category of water;

d) The UK viability statement, which applies to annual reports prepared by UK publicly listed companies, provides a useful and practical model for eliciting forward looking information;
e) We note from Principle 1 that organizations "should provide information from the perspective of the potential impact of climate-related issues on value creation." Another possibility is therefore for the recommendations to categorize disclosures are relating to value creation potential rather than being restricted to recognized assets and liabilities.

Principles

53) The principles are referenced on page 7 of the Annex but do not feature further until Appendix F. The "inevitable tensions" in applying the principles are acknowledged at the end of Appendix F and we wonder whether this is why the principles, which we regard as vital for making decision-useful disclosure, have been relegated to an Appendix at the back of the Annex and not widely referenced within it. We suggest that the TCFD:
   a) Gives more prominence to the principles;
   b) Cross references and aligns them at least to the principles of decision-useful disclosure in the IASB's Conceptual Framework (as the TCFD has cross-referred to Frameworks in other parts of the Annex);
   c) Considers how the principles align with those of other framework developers, such as the IIRC, CDSB, SASB and others. The Global Initiative for Sustainability Ratings provides an example[13] of how such alignment could be approached.
   d) Reconciles some of the principles to the recommendations themselves. For example Principle 5 states that disclosures should be made in financial filings, Principle 7 says that information should be delivered in the mainstream financial report and yet the Q&A at the beginning of the Annex suggests that there is scope for disclosures to be made through other channels, albeit as an interim measure.

Cross-referencing

54) The cross-referencing to existing regimes in Tables 2, 4, 6 and 8 is useful in helping companies to identify where they might already be preparing information in satisfaction of TCFD recommendations. We suggest that the TCFD also considers cross-referencing to regulation where it already requires information based on the metrics in the tables, such as GHG emissions information.

Duplication and reconciliation of statements in the Annex

55) There is a significant amount of duplication between and within the TCFD Recommendations and the Annex, as the guidance for all sectors is repeated for all of the sector specific guidance. We would suggest that rather than replicate content it could be organized more effectively so that reporting organizations can see their overall requirements at a glance. We attach Table 2 suggesting how this could be done.

Question 5 - Additional Disclosures - What other climate-related financial disclosures would you find useful that are not currently included in the Task Force's recommendations

56) In addition to the suggestions we have made elsewhere in this response, we invite the TCFD to consider including the following disclosure requirements in their recommendations:
   a) Statement of conformance – In their introduction to financial statements, many companies include a description of the policies and standards they have used to prepare the financial statements and how those policies and standards have been applied. For example, the description might explain how a particular International Financial Reporting Standard has been applied when first adopted or the company's policy on including results attributable to new acquisitions. We believe that readers of climate-related financial disclosures will find it useful to understand how companies

[13] http://ratesustainability.org/pdfs/GISR_Principles_Beta_Public_Consultation_050213_FINAL.pdf

have approached those disclosures including what policies, standards and choices they have applied. We refer the TCFD to Requirement 11 of the CDSB Framework for reporting environmental information and natural capital as an example of how a "statement of conformance" could be approached.

b) Climate policy engagement – As part of the recommended disclosures on governance, we think it would be helpful for companies to make a statement on whether and to what extent its climate policies and strategies are aligned with the organization's lobbying, advocacy, memberships and related policy engagement activities including participation in relevant multi-stakeholder initiatives.

c) Organizational boundaries – One of the most complex reporting issues we have encountered is the way in which corporate Groups approach mainstream reporting where the organizational boundaries used for financial reporting, which are determined according to specific financial accounting standards, are different to the boundaries used for climate (and other environmental and social) reporting. Whereas financial reporting is often confined to subsidiaries, jointly controlled entities and certain associates, climate reporting often extends beyond those boundaries to supply chains and to climate-related implications of indirect corporate activity, for example, through the use of products. We refer the TCFD to CDSB's discussion paper on "Proposals for boundary setting in mainstream reports" for a full description of the issues concerned and proposed solutions.

d) Disclosure of climate change related natural capital financial assets – One of our Technical Working Group members has suggested that natural capital financial assets should be recognized, for example, marshlands, peat lands, forests and natural infrastructures owned by companies. He points out that these might already fall within the IASB's definition of an asset "an asset is a present economic resource controlled by the entity as a result of past events" (IASB Conceptual Framework Exposure Draft, May 2015). IAS 41 "Agriculture" already requires recognition and measurement of certain natural capital assets as biological assets if they are held for commercial purposes.

Question 6 - Scenario analysis - The Task Force recommends organizations describe how their strategies are likely to perform under various climate-related scenarios including a 2-degree 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.

57) Answer : Quite useful.

Question 7 - Please elaborate on your response to question 6. If you selected not very useful or "not useful at all," please indicate what would be more useful

58) We are very supportive of the TCFD's efforts to use scenario analysis as a means of encouraging organizations to assess risk and opportunities, identify and assess a range of potential outcomes of future events, deal with uncertainty and develop plans accordingly.

59) Our first observation is that the linkages between guidance on scenario analysis are not clear across the following parts of the TCFD's documents:

a) Recommended disclosure 2 (Strategy) c, which asks companies to describe how their strategies are likely to perform under various forward looking climate related scenarios and any resulting changes to their strategies and financial plans, risk management activities or targets or metrics to mitigate risks and take advantage of opportunities;

b) Principle 2, which states: "any scenario analyses should be based on data on other information used by the organization for investment decision making and risk management." We cannot find evidence of this guidance elsewhere.

c) Chapter D of the main recommendations report;

d) The Technical Annex on scenario analysis.

60) We find slightly different, and in some cases, mixed messages in each of these parts of the TCFD's materials and cases in which cross-referencing to other parts of the documents might be helpful. For example, the way in which "typical categories of climate-related risks and opportunities" are described in Figure 1 in the Technical Annex appears to be similar to or the same as the way in which they are described in Table 1 on page 11 of the main recommendations document. For the avoidance of doubt, we suggest that all references to climate-related risks and opportunities refer to Table 1 on page 11 of the main document. Furthermore, although recommended disclosure 2c suggests that the purpose of scenario analysis is to assess and describe strategic implications of climate-related risks and opportunities (and resulting changes to strategy and financial plans), the evaluation described on page 6 of the Technical Annex focuses on the financial impacts on input costs, operating costs and revenues as well as effects on supply chain, business continuity and timing. Given the guidance in other parts of the TCFD's documents, we would have expected the evaluation of business impacts to focus on corporate strategy rather than on financial effects as shown in box 4 of the process outlined on page 6 of the Technical Annex. As noted elsewhere in this consultation response, we are wary of companies being asked to make financial disclosures that are not already required under financial reporting standards. We suggest that it might be more effective to focus on the potential strategic impacts of scenario analysis (as some of the text in the TCFD's documents indicates) and clarify that any information about impacts on input costs, operating costs or revenues is designed to inform readers about strategic choices rather than affect financial statements (unless already required under financial reporting standards).

61) In summary, we suggest that the TCFD looks across the four references listed above to ensure that there is consistent messaging between them on scenario analysis. As part of this exercise, we encourage the TCFD to provide a clear articulation of the objectives of scenario analysis and what it is intended to test and/or enable others to evaluate, e.g.: resilience of business model, prospective capital needs, accurate reading of the balance sheet, financial condition, competent risk management or all or some of the above? Furthermore, it must be clear how the objective (if successfully achieved) helps investors to understand the reporting organization's performance.

62) Our second concern is that the license for companies to use any scenarios they consider most appropriate will result in too much diversity in the results of the analyses and the information will not therefore be useful to investors. This concern was also referenced in Preventable Surprises' response to the Phase 1 report and is evidenced in the work of Steven Lydenberg. We strongly recommend that all reporting companies are required to use at least one consistent reference scenario for their analyses in order to support consistency and comparability.

63) One of our Technical Working Group members has suggested that the TCFD should convene a number of sectoral sub-committees charged with developing "presumptive" scenario analysis standards. These would act as "base cases" to minimise implementation costs and maximise comparability and consistency. Reporting organizations would be encouraged to identify when and if their own views on the "likely future" differed from the presumptive scenarios and provide their analysis against that case. Our Technical Working Group member suggests that companies should be obliged to apply and disclose against the presumptive sectoral scenarios alongside one consistent reference scenario (per paragraph 62 above) and their own proprietary scenario if appropriate. Another Technical Working Group member has suggested that there are some parallels between this suggested approach and the requirement for UK companies to show, as part of their Annual Report for Remuneration, a performance graph showing the company's total cumulative shareholder return (TSR) compared with the TSR of a broad equity market index over a period of the five most recent financial years.

64) Thirdly, we recommend that the TCFD provides more guidance on precisely what a company is expected to disclose about the results of its scenario analysis. This point links closely to our suggestion that the objective for scenario analysis is more clearly articulated. The type and content of disclosures made will depend on whether the main objective is to satisfy readers of competent climate-change risk management, business model resilience or balance sheet strength for example. We refer the TCFD to IFRS 7 and 9 on the way in which scenario analysis is expected to apply to financial instruments as this clearly sets out the disclosures that companies are expected to make. The Institute and Faculty of Actuaries has produced a publication[14] summarizing the main elements of stress testing and an overview (page 18) of how results should be presented.

65) Fourth, we refer the TCFD to Carbon Tracker's "No Rhyme or Reason" report. The scenario envisaged by the US coal companies examined in that report was that commitment to coal production would expand in the decade from 2010 and beyond. Balance sheets therefore revealed evidence of larger companies having taken on substantial debt in order to gain market share. However, numerous US coal companies went bankrupt over the past five years because the expected future state of coal production did not transpire and markets failed to read the signals that balance sheets were under strain. Given this evidence, we suggest that further thought is given to how investors are expected to react to the disclosures made by companies about their scenario analysis.

66) Finally, we notice that most of the guidance on scenario analysis is aimed at reporting organizations, although there is supplemental guidance for some categories of financial company. We understand[15] that the FSB has proposed that systemically important fund and asset managers should conduct scenario analysis as they are potential center points of systemic risk. We encourage the TCFD to explain what role financial companies will play in assessing the scenario analyses of reporting organizations for the purposes of identifying systemic or even portfolio risk.

Question 8 - What do you view as effective measures to address potential challenges around conducting scenario analysis and disclosing recommended information.

67) During a webinar on 11 January 2017 hosted by PwC and WBCSD, 29% of attendees voted for additional methodologies and tools to be developed to enable more effective scenario analysis and 25% of attendees voted for better practice standards on scenario analysis so that there are "clearer rules of the road."
68) We refer the TCFD to the World Business Council's Business Low Carbon Technology Partnerships Initiative[16] (LCTPi) for examples of scenarios being developed by businesses. LCTPi aims to achieve systemic economy wide impact across sectors that will get 64-68% of the way towards achieving a two degrees scenario. The action areas of the LCTPi initiative include renewables, carbon-capture and storage, cement, energy efficiency in buildings, low carbon fuels, climate smart agriculture and forests as carbon sinks.

Question 10a - Metrics and Targets - 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.

Answer: Quite useful

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[14] https://www.actuaries.org.uk/.../a1-good-bad-and-ugly-stress-and-scenario-testing

[15] https://www.ft.com/content/8a1085ea-d8e3-11e6-944b-e7eb37a6aa8e

[16] http://lctpi.wbcsd.org/

Question 10b - Please provide more detail on your response in the box below.

69) Our comments in paragraphs 40 – 51 apply equally to this question.

70) One of our Technical Working Group members has suggested that companies could be asked to report what their investment in climate related activity related projects are as a percentage of overall investment.

71) One of our Technical Working Group member has commented on the transportation metrics in Table 4 and in particular the example metric “sales-weighted average fleet fuel economy.” She has pointed out the difficultly of providing this metric by region in relation to cross border transportation. For example in the case of a container vessel that sails from Hong Kong to Rotterdam, is owned in Singapore and time chartered by a Danish company, it is difficult to ascertain where CO_2 has been emitted. We suggest that the TCFD considers the practical implications of companies attempting to break down CO_2 emissions or other metrics by region in these cases and explains the value to investors in providing a break down.

72) We also invite the TCFD to consider whether metrics identified in any of the following publications might be useful:

   a) Flicking the Switch – Are electric utilities prepared for a low carbon future? CDP May 2015
   b) Emission impossible – Which car makers are driving into trouble? CDP March 2016
   c) Investor Expectations of Mining Companies – Digging deeper into carbon asset risk. IIGCC and others 2015
   d) Investor Expectations of Electric Utilities Companies – Looking down the line at carbon asset risk. IIGCC and others 2016
   e) ACT – Assessing low-Carbon Transition: Automotive Manufacturing Sector Methodology Consultation Draft 13 June 2016. CDP, ADEME and others
   f) ACT – Assessing low-Carbon Transition: Electric Utilities Sector Methodology Consultation Draft 13 June 2016. CDP, ADEME and others
   g) Making the Grade – Are some miners chasing fool’s gold? CDP November 2015
   h) Back to the Laboratory – Are global chemical companies innovating for a low-carbon future? CDP August 2015

73) We note from the recommended disclosure on metrics and targets (recommended disclosure c) that in describing their targets, organization should consider including the base year from which progress is measured. We agree that this is a vital piece of information for disclosure. However, the TCFD should note that there are various baseline setting and varying approaches in use and that the approach used by a company should either be disclosed as part of the conformance statement or the TCFD could consider recommending an approach in the interests of encouraging consistency and comparability.

74) Also on the subject of consistency and comparability, we suggest that the TCFD considers whether formulae for the calculation of metrics in tables 2, 4 6 and 8 should be referenced or prescribed.

75) In all cases, we suggest that the acid test to be applied to metrics is to ensure that they respond and provide useful disclosures in relation to the Examples of Climate-Related Risks (& Opportunities) and Potential Financial Impacts in Tables 1 and 2 of the main recommendations in that they help reporting organizations and information users to understand exposures, vulnerability, resilience, capital availability, asset structures, pricing and costs.

Question 11 - Carbon-related Assets in the Financial Sector - 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?

76) We understand from the guidance for the Financial Sector on page 17 of the Annex that the purpose of eliciting information about carbon-related assets is to "enable stakeholders to understand better the concentrations of carbon related assets in the financial sector and the financial system's exposures to climate-related risks." From this text, we think that the disclosures about carbon-related assets serve a different objective from many of the other recommended disclosures in that they are aimed at identification of systemic risk as opposed to corporate or portfolio risk. Rather than develop a set of metrics or disclosures at this stage, we recommend that the TCFD undertakes or commissions a study on the type of information that is most likely to reveal systemic risk, possibly drawing on experience from the work that has been done on Global Systemically Important Banks and focusing on the type of organizations referred to in footnote 30 on page 21 of the main recommendations document.

77) We encourage the TCFD to undertake or commission further work on how the term "carbon-related assets" should be defined. As currently drafted, there are various interpretations of the term as follows:
    a) Page ii refers to "carbon-intensive assets" as "real and financial assets whose value depends on the extraction of use of fossil fuels."
    b) Footnote 13 on page 3 says: "the term carbon-related assets is not well defined, but is generally considered to refer to assets or organizations with relatively high direct or indirect GHG emissions. The Task Force believes further work is needed on defining carbon-related assets and their potential financial impacts."
    c) Footnote 11 on page 22 of the annex says: "The task force encourages banks to use a consistent definition (of the phrase carbon-related asset) to support comparability. For purposes of disclosing amounts and percentages of carbon related assets relative to total assets under this framework, the Task Force suggests banks define carbon-related assets as those assets tied to the energy and utilities sectors under the GICS excluding water utilities and independent power and renewable electricity producer industries."

78) We refer the Task Force to WRI/UNEPFI's work for a possible definition as follows: "carbon asset is a physical asset with relatively high GHG emissions, either directly (for example, a coal-fired power plant), indirectly through purchased energy (for example, an aluminum plant using large amounts of fossil fuel powered electricity) or through the sale of products that will emit large volumes of greenhouse gases (for example, wells in a basin producing oil or natural gas).

79) We suggest that it would be helpful for the TCFD to provide some linkage between guidance on carbon-related assets and the metrics in Tables 2, 4, 6 and 8 in the financial category "assets/liabilities" and the climate-related category "reserves/assets." In particular, the example metric asks for a breakdown of reserves and an indication of associated emissions factors to provide insight into potential future emissions. Information provided in response to these metrics could help to identify assets with relatively high direct or indirect GHG emissions.

Appendix – CDSB's Board and Technical Working Group Members

CDSB's Board members

Chair: Richard Samans, Managing Director and Member of the Managing Board, World Economic Forum

Pankaj Bhatia, Director of GHG Protocol Initiative, World Resources Institute

Dr Rodney Irwin, Managing Director, Redefining Value & Education, World Business Council for Sustainable Development

Mindy Lubber, President, Ceres

Dirk Forrister, CEO, IETA

David Rosenheim, Executive Director, The Climate Registry

Damian Ryan, Acting CEO, The Climate Group

Paul Simpson, CEO, CDP

Gordon Wilson, Senior Manager, PWC, Chairman Technical Working Group

Lois Guthrie, Founding Director, CDSB

CDSB's Technical Working Group members

Chair: Gordon Wilson, PwC

Alan McGill	PwC
Andrew Collins	Sustainability Accounting Standards Board (SASB)
Prof. Carol Adams	Independent
Christian Hell	KPMG Germany
Claire Rainsford	EY
Cynthia Cummis	World Resources Institute (WRI)
Danielle Carreira	Natural Capital Declaration
David Cooke	ClientEarth
Desire Carol	AICPA
Francisco Ascui	The University of Edinburgh
Andy Beanland	World Business Council for Sustainable Development (WBCSD)
Hilary Parsons	Nestle
Ian Wood	Independent
Ira Feldman	Greentrack
Jackie Cook	Fund Votes
James Leaton	Carbon Tracker Initiative
Dr Jane Thostrup-Jagd	Independent
Dr Jarlath Molloy	Independent
Jenna Jorns	The Climate Registry
Jim Coburn	Ceres
Dr Joel Houdet	African Centre for Technology Studies (ACTS)
Jochen Krippner	PwC
Julie Desjardins	CPA Canada
Kazuhiko Saito	KPMG Japan
Lloyd McAllister	KPMG UK
Lois Guthrie	Climate Disclosure Standards Board (CDSB)
Dr Maria Balatbat	University of New South Wales
Mario Abela	Gather

Dr Matthew Haigh	SOAS
Peggy Kellen	The Climate Registry
Richard Spencer	Institute of Chartered Accountants in England and Wales (ICAEW)
Robbie Louw	Promethium Carbon
Robert Evans	Arcadis
Sally Vivian	AECOM
Dr Sarah Barker	Minter Ellison
Stathis Gould	International Federation of Accountants (IFAC)
Steve Priddy	London School of Business and Finance
Tom Baumann	Interactive Leader
Tony Rooke	CDP (formerly Carbon Disclosure Project)
Udeke Huiskamp	Deloitte