

July 17, 2021

By email to info@fsb-tcfid.org

Task Force on Climate-related Financial Disclosures
c/o Financial Stability Board
CH-4002
Basel, Switzerland

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

Dear Task Force Members:

The Investment Company Institute, including ICI Global,¹ is writing to submit our response to *the Consultation on Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans*,² with respect to proposed cross-industry, climate-related metrics. We support including Absolute Scope 1 and Scope 2 GhG emissions in the TCFD Guidance but recommend more comprehensive work with stakeholders on developing methodologies for any additional metrics before including them in the Guidance. Only with further work can the other metrics meet the TCFD's objective of helping investors understand climate-related risks and opportunities with respect to reporting organizations.³

We respectfully submit this letter in lieu of responding to the TCFD's survey questions that accompanied the Consultation Paper.⁴ As the trade association representing regulated funds

¹ ICI Global carries out the international work of the Investment Company Institute, the leading association representing regulated funds globally. ICI's membership includes regulated funds publicly offered to investors in jurisdictions worldwide, with total assets of US\$40.7 trillion. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of regulated investment funds, their managers, and investors. ICI Global has offices in London, Brussels, Hong Kong, and Washington, DC.

² For the Consultation Paper (TCFD CP), see <https://www.fsb-tcfid.org/publications/>.

³ See TCFD CP at 31.

⁴ For the TCFD Survey Questions (TCFD Survey) accompanying the TCFD Consultation Paper, see <https://assets.bbhub.io/company/sites/60/2021/06/TCFD-MTT-Survey-Reference.pdf>. We note that the multiple-choice survey questions, as posed, may result in misleading answers. This is especially the case with respect to questions addressed to users of the information. For example, Question 20, addressed to users, asks whether the user would find the seven metrics useful for preparers to disclose. In theory, the answer can be yes to all the metrics, but these answers would be based on the assumption that the metrics can be reported in a consistent and reliable manner by the preparers and in a format that would allow the metrics to be comparable across companies. This is not yet the case with all the proposed metrics, as we discuss herein. Similarly, Question 22, which asks about the benefits of

globally, ICI has a significant interest in the evolution of sustainability reporting frameworks and standards, including climate-related financial disclosures. Sustainability-related information is useful for fund managers making investment decisions on behalf of millions of investors around the world.

Our letter provides the views of members as users of the TCFD disclosure and does not respond to questions specifically directed at the financial services sector. We continue to believe that the path toward improved climate-related disclosures must follow a sequence that begins with companies overcoming the challenges associated with their reporting of climate-related metrics. Any consideration of reporting by asset managers should be based, and therefore depend, on more companies reporting higher quality and more reliable climate-related data.

Role of the TCFD in International Work on Sustainability Reporting

ICI has been a supporter of the TCFD's work,⁵ and we recognize the important role that the TCFD recommendations play and will continue to play in the international sustainability reporting landscape. We understand that the TCFD has put this consultation forward to assist the International Financial Reporting Standards (IFRS) Foundation in its work on developing a global baseline reporting standard for corporate issuers. The IFRS baseline standards will build upon an initial prototype (the "Prototype") that was published by the leading sustainability reporting organizations in December 2020.⁶

In June 2021, the International Organization of Securities Commissions (IOSCO) published a report summarizing the ongoing work to date to develop the global baseline sustainability reporting standards for corporate issuers and recommending additional enhancements to the Prototype, including the need to provide granular guidance on quantitative metrics, including the

disclosing the seven metrics, can similarly produce misleading answers for the same reasons. If the metrics were to be available, and they were reported in a consistent and reliable manner, and available in a comparable format, they would be useful to all the purposes listed as answers: ability to deliver on my organization's climate ambition, better decision making, more effective engagement with my value chain, compliance with regulatory mandates, compliance with investor reporting requests, and satisfying customer pressures.

⁵ Most recently, see ICI's response (dated June 4, 2021) to SEC's *Request for Public Input on Climate Change Disclosures*, available at https://www.ici.org/system/files/2021-06/21_ltr_rfi.pdf, recommending that the SEC require narrative disclosures by public companies consistent with the TCFD framework. Also, in our January 2021 letter to the TCFD on the *Forward-Looking Financial Sector Metrics Consultation*, we already described the action by ICI's Board of Governors urging companies to provide disclosure consistent with the TCFD's 2017 recommendations, and the letter also describes ICI's call for the Biden Administration to support the TCFD. See, respectively, ICI News Release, "ICI Board Unanimously Calls for Enhanced ESG Disclosure by Corporate Issuers" (December 7, 2020) (announcing that ICI's board is urging companies to provide disclosure consistent with the recommendations of the TCFD and Sustainability Accounting Standards Board (SASB)), available at www.ici.org/news-release/20_news_esg, and Eric J. Pan, "The Fund-Management Industry Now Wants the US to Take the Lead on ESG Investing—Here's What It Says Biden Should Do," published in MarketWatch (December 7, 2020) (stating that the Biden administration should prioritize announcing support for the TCFD and SASB), available at www.ici.org/speeches-opinions/20_ejp_esg.

⁶ For the Prototype, see https://29kjwb3armds2g3gi4lq2sxl-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf. These organizations include CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB). The Prototype was based on their collective frameworks and the TCFD's recommendations. See IOSCO report at 4.

use of globally accepted and consistent labels, definitions, and measurement methodologies.⁷ The IOSCO also noted that frameworks underlying the Prototype, such as the TCFD recommendations, continue to evolve.⁸

Proposed Metrics

In the current consultation, the TCFD is consolidating and updating metrics from its various guidelines as broad categories of quantitative metrics to be disclosed. Specifically, the TCFD has proposed seven categories of cross-industry, climate-related metrics.⁹ Observing the need and demand for comparable and standardized reporting for climate-related disclosures, the TCFD has identified six fundamental principles that are particularly important for climate-related metrics: decision-useful, understandable, verifiable, objective, trackable over time and consistent, and aligned to the other TCFD Pillars.¹⁰

We welcome the development of metrics, but we do not believe that all of the proposed metrics meet these fundamental principles at this time. More specifically, we agree that Absolute Scope 1 and Absolute Scope 2 GhG emissions¹¹ meet the six principles and should be included in the revised TCFD Guidance. We do not believe, however, that the other metrics (including Absolute Scope 3 GhG emissions) should be included at this time.

Although quantifiable metrics may have some appeal, members generally believe that reporting for most of the proposed metrics is still nascent. In particular, the underlying methodologies, inputs, and assumptions are not yet consistent or transparent, not comparable across sectors or regions, and are potentially subjective for some of the proposed metrics. The combination of these factors undermines the usefulness of the proposed metrics (except for Absolute Scope 1 and Scope 2 GhG emissions) for users trying to understand a particular company's climate-related risks and opportunities. For these reasons, we recommend a more thorough assessment for developing the proposed metrics, possibly through stakeholder workshops or additional consultations.

⁷ See IOSCO's *Final Report on Sustainability-related Issuer Disclosures* (June 2021), at 49, available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf> (IOSCO Report).

⁸ IOSCO Report at 45.

⁹ See TCFD CP at 26 for the summary of the proposed cross-industry, climate-related metrics: Absolute Scope 1 and 2 GhG emissions and relevant, material categories of Scope 3 GhG emissions; external and shadow/internal carbon price(s); the proportion of assets and/or operating, investing, or financing activities materially exposed to physical risks, based on key categories of commonly accepted risks; the proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks, based on key categories of commonly accepted risks; the proportion of assets and/or operating, investing, or financing activities aligned toward climate-related opportunities, based on key categories of commonly accepted opportunities; the amount of senior management remuneration impacted by climate considerations; and the amount of expenditure or capital investment deployed toward climate risks and opportunities.

¹⁰ TCFD CP at 15.

¹¹ Also see ICI's response (dated June 4, 2021) to SEC's *Request for Public Input on Climate Change Disclosures* (ICI Letter to SEC on *Climate Change Disclosures*), available at https://www.ici.org/system/files/2021-06/21_ltr_rfi.pdf, where we elaborated further on this point.

In this regard:

- We see an increasing interest in Scope 3 GhG emissions, but there are still challenges related to the reporting of Scope 3 GhG emissions.
- Similarly, we see a growing interest in understanding the connection between senior management’s remuneration and the companies’ activities with respect to climate. Further work, however, needs to be done to create a metric that meets the six fundamental principles.
- The carbon pricing metric triggered many comments from our members, but more work needs to be done.
- We recommend further work regarding measuring the proportion of assets or activities subject to physical or transitional risks. Calculating these metrics is subject to interpretation and judgment, and they are not ready for inclusion as metrics although some members are interested in the information (and in particular, with transparency on the underlying methodologies used).

We therefore recommend refining the methodologies underlying the metrics with comprehensive stakeholder input and continued engagement with SASB—to ensure complementary reporting and prevent duplication and overlap. The SASB approach is to differentiate metrics based on industry and/or sector, and we welcome the ongoing efforts to ensure that these frameworks are employed in a complementary, interconnected way. Expanding and enhancing these efforts will strengthen the reporting frameworks going forward and enhance the discussion and proposal of cross-industry, climate related metrics in the future.

Materiality

The TCFD currently recommends that organizations disclose metrics if they determine they are material to them.¹² In the current consultation, the TCFD states that:

Given the potential importance and usefulness of these [proposed] cross-industry metrics, TCFD is requesting input ... on the disclosure treatment of these seven cross-industry, climate-related metrics in relation to the concept of materiality. Should these metrics, or a subset, be disclosed independent of a materiality assessment, or should their disclosure be subject to a materiality determination?¹³

We recommend that the organizations disclose the metrics if they are financially material.¹⁴ Organizations disclosing financially material metrics should provide investors with information

¹² See TCFD CP at 4 and 31, and *also* 2017 TCFD Final Report, and the corresponding guidance.

¹³ TCFD CP at 31.

¹⁴ See ICI Letter to SEC on *Climate Change Disclosures*, *supra* n. 1 (stating that any disclosure requirements that the SEC ultimately prescribes should be rooted in materiality so that the level of detail and granularity of data to be disclosed within any prescribed categories of information can be benchmarked sensibly), and ICI’s response (dated December 31, 2020) to the *IFRS Consultation Paper on Sustainability Reporting* (urging the IFRS to focus on sustainability information that is not reflected in financial accounts, but which is nevertheless material to enterprise

continued

useful to consider in making investment decisions and should help allocate capital more efficiently.

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In conclusion, we agree that the work on sustainability-reporting standards must continue apace, and we welcome the TCFD's continued leadership in sustainability reporting. We look forward to engaging further with the TCFD and others on these important issues.

We would be happy to further discuss any of our comments and further input that we can provide. You may contact me at jennifer.choi@ici.org, Anna Driggs at adriggs@ici.org, or Dorothy Donohue at ddonohue@ici.org.

Yours sincerely,

/s/ Jennifer S. Choi

Jennifer S. Choi
Chief Counsel, ICI Global

value creation over the short, medium, and long term), *available at* https://www.ici.org/system/files/attachments/20_ltr_ifrs.pdf.