

7 July 2021

Task Force on Climate-related Financial Disclosures
c/o Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

By email only: info@fsb-tcfd.org

Dear colleagues

Consultation on Proposed Guidance on Climate-related Metrics, Targets, and Transition Plan

Deloitte Touche Tohmatsu Limited (Deloitte) is pleased to provide commentary on the Task Force on Climate-related Financial Disclosure (TCFD)'s June 2021 document *Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans* (the Proposals). We have chosen not to complete the online survey as we believe we can best respond as an adviser and assurance provider to preparers around the world. Therefore, we provide an overview containing some key observations on the Proposals.

At the time the TCFD recommendations were first issued, Deloitte Global's then-chair, David Cruickshank, and current CEO, Punit Renjen, signed statements of support. Deloitte is actively involved in TCFD's work through our colleague Catherine Saire, a member of the TCFD, and formerly by Eric Dugelay. Deloitte is also committed to publishing its own TCFD report.

Overall, we greatly welcome the proposed revisions to the guidance. We consider that they respond to emerging practice, the expectations of regulators and investors for more consistent and comparable disclosures on climate-related matters and encompass recent developments in measurement and reporting practices. We also appreciate that TCFD disclosures are being made mandatory in a number of jurisdictions and that the G7 finance ministers and central bank governors have stated in a communique that they support mandatory requirements for TCFD reporting.

Materiality

The concept of materiality is at the core of corporate reporting and provides an essential filter when considering disclosures that are designed to meet the information needs and expectations of specified users. Applying a materiality filter therefore enables clear presentation of matters that are determined to be relevant and decision useful to primary users, helping to avoid cluttering reporting or obscuring material information. In addition, not including a materiality filter in the guidance may discourage further voluntary adoption of the TCFD recommendations in jurisdictions where adoption is in the early stages

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and companies are using TCFD as a useful communication framework rather than viewing it as a compliance-based exercise.

We therefore strongly believe that climate-related disclosures on strategy and metrics and targets should always be subject to a materiality assessment. We do not believe that climate-related metrics should be provided irrespective of an assessment of materiality, or on a comply-or-explain basis. In our view ‘zero returns’ lead to a compliance-based mentality rather than a narrative that explains the view of management and those charged with governance.

Our view is especially important in respect of moves towards global sustainability standards under the IFRS Foundation (IFRSF) and jurisdictional standards. We believe a standard should specify **required** disclosures that **must be** included by an entity in its reporting, subject to a materiality assessment, as is the norm with other standards. Comply or explain provisions are best suited to ‘soft regulation’ rather than mandatory reporting standards.

Users of climate-related information may wish to have more insight into the governance and risk management context in which issues have been identified, assessed and managed and therefore on how decisions on materiality have been reached. TCFD already recommends that these disclosures are provided by all organisations. Furthermore, investor views on what they consider to be relevant and decision-useful may mean that certain metrics would be disclosed irrespective of their quantitative impact. Ultimately, we believe it is for reporting organisations to determine what to report through their materiality assessment.

Strategy

We think enhancing the guidance on disclosures relating to financial impacts over time is helpful. We note that successive TCFD Status Reports have highlighted the need for better disclosure in this area. We also agree with the Proposals that information in narrative reporting on potential future financial impacts could best be provided as a qualitative assessment based on likely trends in climate-related metrics, or given as an estimated financial range, or tied to specific scenarios. We further note that the IASB’s recent exposure draft (ED) on management commentary contains useful content on describing financial impacts.

We recommend that the guidance also clarifies that preparers should consider how these matters relate to financial statements, referencing the climate-related educational materials issued by the IASB and FASB. Furthermore, we have found the Examples of Potential Climate-Related Impacts by Financial Category (Table A5 on p76 of TCFD’s 2017 guidance *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*) to be useful to preparers when considering how to describe the financial impacts of climate, and suggest this is brought into the body of the revised guidance.

We agree that an important component of a strategic response to climate change can be a transition plan that lays out how an organisation aims to minimise risks and increase opportunities as the world transitions toward a low-carbon economy. We strongly agree that disclosure of transition planning, including necessary shifts in strategy and business model, can provide important context that helps users to understand how an organisation plans to achieve its climate-related targets and therefore enhance confidence in the authenticity of the commitments made by the organisation.

However, we recommend disclosure on transition planning is positioned as helpful guidance in fulfilling recommended disclosures under the strategy pillar, rather than brought in as an explicit disclosure requirement. We observe that management is best placed to determine how to structure and decide on

the appropriate strategic response and actions, and how these should be articulated and communicated, for example, to address how climate-related targets shall be achieved. We further suggest care is needed in some of the language in the section on transition planning (e.g. on p58 of the Proposals) and elsewhere (see below, for example) to be clear that the objective of the requirements is transparency rather than guiding management decisions. As such, the guidance should ensure the content describes recommended disclosures of the actions and decisions made and does not inadvertently stray into directing those actions or decisions.

Metrics and targets

We agree that a selected number of cross-sector metrics is essential to give users consistent and comparable information on core climate-related issues that can be relevant to all organisations. Investors and other users of climate-related information have repeatedly called for high-quality, consistent and comparable metrics on climate-related matters. We observe that the metrics selected respond to investor expectations to understand the financial impacts of climate on the organisation's performance and prospects.

We welcome the direction of travel in relation to disclosure of Scope 3 GHG emissions. We agree that a stronger signal should be given to companies to disclose Scope 3, especially as it can frequently form the largest proportion of their carbon footprints. This will act as a prompt to enhance the quality and reliability of measurement of Scope 3. We believe it likely that disclosure of Scope 3 will become increasingly mandated around the world as policymakers pursue net-zero commitments for their jurisdictions.

As we note above, we believe that a materiality filter should **always** apply in relation to disclosure of these metrics. We therefore agree that TCFD's disclosure recommendation for the metrics and targets pillar remains appropriate: 'Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material'.

To enhance the reliability and verifiability of some of the metrics, especially those relating to proportions of assets exposed to climate-related risks, we believe detailed guidance and methodologies will need to be specified (for example, through international standards or at jurisdiction level). In particular, additional guidance on how to evaluate acute and chronic risks, together with further implementation examples of physical risk metrics, may be useful for preparers. We note that guidance is given that 'organisations should implement a shadow carbon price'. We believe that the guidance should focus on disclosure of whether a shadow carbon price has been adopted by the organisation, and if so, what it is, rather than prescribing management actions.

We also agree that investors benefit from industry-specific metrics and believe these should therefore be specified in detailed standards in order to enhance the consistency and comparability of metrics relevant to sector-related activities.

We find that the table on p28 of the Proposals, that shows how metrics can be used in relation to the other pillars, together with disclosures on financial impacts, is helpful and could enhance connectivity of information. For us, the critical point is that the four pillars are interconnected.

As the Proposals suggest, targets are an essential element of climate-related disclosures, particularly in order for users to assess the achievability and credibility of organisations' net-zero ambitions. For this reason, we welcome the additional guidance on the characteristics of high-quality disclosures on targets.

On both metrics and targets, we note that the IASB's ED on management commentary could provide further useful content. We recommend in particular enhancing guidance to address consistency of calculation and presentation of metrics and targets over time, with additional guidance on how to disclose any change in the basis of measurement, related policies, or changes to the targets, in order to ensure consistency period to period and transparency as to the rationale for changes that may be made by management.

Financial institutions

In relation to disclosures of financed emissions and weighted average carbon intensity (WACI), we observe that practice in this area is emerging, especially as reliable disclosures are dependent on a wide range of data from multiple sources, including investee companies. We therefore believe it would be premature to mandate these disclosures. However, encouraging financial institutions to provide these metrics is important and will heighten attention on the need for high-quality, consistent and verifiable reporting on them.

We further welcome the guidance on portfolio alignment to highlight emerging best practices and to promote more widespread adoption of consistent, robust, and decision-useful approaches. While we do not comment in detail on this guidance, in our experience this is a growing area of focus by investors and lenders and therefore it can help enhance comparability and transparency across financial institutions.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V Poole', with a stylized flourish at the end.

Veronica Poole

Global IFRS and Corporate Reporting Leader
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