COVERAGE AND AUDIENCES

1. Which types of nonfinancial firms should any disclosure recommendations cover? List in order of importance. (Rank order)

Energy (equipment, services, oil and gas etc)

Utilities (electric, gas, renewables, water)

Materials (chemicals, construction, metals & mining, paper & forest etc)

Consumer staples (food, beverage, household etc)

Industrials (capital goods, commercial services, transport)

Telecommunications (diversified, wireless etc)

Information Technology (semiconductors, software, hardware etc)

Consumer discretionary (auto, durables, retailing etc)

Health care (equipment, services, pharma, biotech etc)

Any other recommendations

Given systemic risks and the inherent interdependencies between companies these comment apply to both listed and non-listed companies. Reporting should focus on fulsome public disclosures relevant to the most material risks to company operations regardless of sector, noting that this may vary considerably between companies within the same sector. In this sense the ranking above is somewhat arbitrary and may not accurate reflect individual companies.

It has been assumed that agriculture (with significant physical risk) has been included within consumer staples. No assessment has been made of the more systemic risks that climate change poses to the entire economy and the flow effects of this.

2. Which types of financial firms should any disclosure recommendations cover? (check box)

☒ Banks (diversified, thrifts, mortgage etc)

☒ Diversified financials (asset management, investment banking/broker-dealer, consumer)

☒ Insurance (brokers, multi-line, property, re-insurance etc)

☒ Real Estate (REITS, management and development)

☐ Credit Rating Agencies

☐ Investment Consultants

☒ Pension funds/schemes

☐ Other ____________

3. Which users in the financial sector should be considered as the target audience? (Check box)

☒ Investors (incl insurance, asset managers, funds, pensions etc)

☒ Banks (diversified, commercial, project finance)

☒ Broker-dealers and investment banks

☒ Credit rating agencies

☒ Other ___Regulators and Central banks___

CLIMATE-RISK DIMENSION

4. For nonfinancial preparers of climate risk and opportunity information, what are the top three key concerns that you would like the Task Force to keep in mind in making our recommendations?

1. The potential for conflict between the principles
2. That whilst voluntary there is a strong likelihood that the recommendations will become effectively mandatory, by stakeholder pressure or through influencing mandatory requirements and that this should be considered in the framework design and final recommendations – eg the bar should not be lowered to encourage participation if this means important information is omitted
3. The need for guidance in undertaking scenario analysis, including opportunities for the costs associated for this activity to be reduced (eg through the development of baseline scenarios by the Taskforce that can be used to assess individual company outcomes

5. For users of climate risk and opportunity information, what are five specific points of information that you wish to secure?

While general principles can be set at an aggregate level, with scope for sector specific guidance, neither should supplant entity level materiality assessment.

1. Info about the full range of climate risks, not just carbon, incl. systemic risks to the entity. Emissions data is critical but insufficient information. Within the context of a company's operations, other climate risks may be far more material. Even where emissions are a key risk driver, other info may be needed for meaningful risk assessment e.g. for oil and gas, emissions in reserves needs to be triangulated with cost curve positions and expected lifespan.
2. Evidence that appropriate stress testing has been undertaken and integrated into business planning and risk management
3. Disclosure of transition plans, incl. milestones against which progress will be tracked

4. Improved scope 3 reporting - diversity of current practice impairs comparisons and can be misleading by omission (most material sources are often excluded)

6. Are there any best-practice disclosures of climate risks by companies that you would like to bring to our attention? What specific climate elements of this disclosure would you like to highlight? (Please limit to two examples)

We would draw the Taskforce's attention to two current examples of disclosures from within our research universe (S&P/ASX200), climate resilience reporting from property company Stockland and portfolio analysis undertaken by BHP. Both are leading current examples of disclosures on broader climate risks. Both provide clear disclosures as to the source information used and the internal governance mechanisms in place. Stockland's disclosure also includes performance against targets.

7. "Transition Risk" in terms of climate is an evolving term. How would you define this risk? What specific disclosures would help measure it?

There are 2 dimensions to this risk:

1. Failure to transition resulting in catastrophic climate change
2. Transition occurs in a way that is dislocating to large sections of the economy, resulting in significant market failure that impacts the global economy

Whilst these should not be considered to be mutually exclusive the current definition from the FSB does not appear to overtly consider the first dimension.

Many of the disclosures that would assist in effective measurement relate to resilience more broadly and are outside of the current scope of the TCFD. Measures more in scope include:

- Whether transition risk is considered within an organisation's business planning and risk management
- Whether appropriate signposts have been identified and are monitored (with respect to timeliness and at appropriate levels within the organisation)
- Disclosure as to whether current activities are compatible with a net carbon neutral economy, and details of transition plans where they are not

8. Which three sectors do you think most exposed to climate risks? For these sectors, how are physical, transition, and liability risks best measured and reported?

- Energy (greatest transition risks)
- Finance (indirectly exposed to the majority of climate risks)
- Materials (diverse nature of this category includes both physical risks as well as elevated market risk for some components e.g. mining)

Scenario planning would provide a robust view of potential outcomes for these sectors, coupled with the disclosure of transition plans where current activities are inconsistent with a net carbon neutral economy. The scenarios should be internally consistent with respect to the treatment of physical, transition and liability risk.

9. How should the task force consider the challenge of aggregate versus sector-specific climate-related financial risks and opportunities?

Whilst aggregate level measures will play an important role in measuring systemic risks and opportunities these need to be balanced against the disclosure of risks to individual organisations. This is particularly relevant to assessments made by the financial sector (including lending and equities). There are often important differences between sector peers, in the nature of the risks faced and the capacity for transition. Even a sector focus (in preference to aggregate) is problematic and may lead to the most important things for a particular company not being considered.

Ultimately both views play an important role for different audiences. An option may be to address at the aggregate level and provide additional supporting guidance as to how these requirements might be meaningfully interpreted at the sector level. But sector guidance should not supplant entity level materiality assessment. The principles based approach proposed should be supportive of this.

10. Is there a role for scenario and sensitivity analysis—for the nonfinancial and/or financial sectors? Please provide three specific examples.

Yes, particularly for the financial sector with its economy-wide exposures but also others. The evolving state and understanding of climate change means that techniques for decision making under uncertainty should be central.

Scenarios should be comprehensive and internally consistent considering the physical and other impacts the emissions scenarios implies to ensure full consideration of the risks and opportunities.

It would be useful for the taskforce to promulgate the value of scenario analysis and advance an expectation that a range of plausible scenarios be examined and reported. While climate scenario thinking is gaining traction, companies often focus on a central case supportive of current strategy. This is potentially misleading to less expert report users, and more concerningly this limited thinking may be fed into internal risk analysis.

We are yet to see best practice but call out BHP as one of the first comprehensive attempts within our research universe (S&P/ASX200).

ASSET-CLASS DIMENSION

11. Which are the key asset classes that require initial attention? Are there any gaps that we should focus on? Within this, what are the top two priorities for action?

☒ Equities

☐ Fixed income

☒ Commodities

☒ Project and infrastructure finance

☐ Real estate

☐ Private equity

☒ Loans and other bank financing

☐ Other

Priority for Action 1

Scope 3 emissions within the finance sector, most notably bank loans and equities. In particular how their de-risking efforts are performing relative to changes in the economy overall, including but not limited to decarbonisation.

Priority for Action 2

Disclosure of second order exposures remain a significant reporting gap with the quality of information reported dropping significantly for risks outside of the operational control of the organisation. This includes lifecycle emissions considerations as well as broader risks within the supply chain.

INTERMEDIARY/USER SCOPE

12. Considering the breadth of services the capital supply chain provides, please provide up to three examples of leading work (research or other) from sell-side brokers' investment recommendations, listing rules of stock exchanges, portfolio management and stewardship examples by fund managers, fund-manager recommendations by consultants, or others we should consider.

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13. Please identify three examples of existing disclosure practices on climate risk and opportunities that you consider to be effective by investment banks, stock exchanges, investment managers, investment consultants, or asset owners. Please indicate the preparer and type of disclosure.

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14. How can climate risk information be simply summarized for retail investors? What standards or mechanisms exist for assuring end investors that climate risks and opportunities have been considered in the way that their savings and investment and pension products have been managed?

Whilst important to provide transparent information in a way that is compelling and engaging for retail investors care should be taken not to oversimplify the issues – for instance a single portfolio emissions number that does not reflect the full lifecycle emissions of the portfolio nor the specific approach of the fund (for instance where the emissions of the portfolio are low but climate change factors are not considered). This has the potential to be misleading and potentially result in unintended consequences. There is also a risk that reporters will manage to this number rather than addressing the real underlying risks.

A first step for consideration would be clear disclosures on whether and how climate change risks are considered in the investment process. Such information should be presented in a way that this easy to find and understand on the part of the user, rather than merely being included within compliance orientated product disclosure statements.

MACRO SCOPE

15. In conducting macroeconomic analysis, what are the top three key measures of macroeconomic climate risk performance when seeking to measure the extent to which the global economy is transitioning towards net-zero emissions?

- Assessment of the proportion of the global carbon budget used would be beneficial in assessing the current state of transition
- Emissions intensity of GDP also has the potential to provide a useful measure as to the extent to which economic growth has been decoupled from emissions.
- Emissions by sector, enabling a view of how organisations are performing relative to systems growth, for both individual sector participants and those that finance them.

16. One way to measure transition risk is by considering disclosures based on sector/market scenario analysis. What scenario planning work is currently available in this area?

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17. The United Nations Framework Convention on Climate Change five yearly "global stocktakes" seek to establish in part whether financial flows are consistent with the less-than-two-degree scenarios. Are there any climate-risk disclosure recommendations that would appropriately feed into such an effort?

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LOOKING AHEAD

18. How should the Task Force define "success"?

The ultimate test will of course be if financial stability is maintained as the global economy decarbonises. Interim goals would potentially include:

- Prevalence of climate risk assessment and disclosures across industries and increased decision relevance of reported info
- Consideration of climate risks and transition planning occurring at senior levels within organisations
- Greater understanding and focus on this issue on the parts of governments and central banks around the world

- Enhanced disclosures that facilitate the movement of global capital flows towards decarbonisation in line with the aspirations set in Paris, resulting in a
- More sophisticated understanding and assessment of the impacts of climate change by the financial sector and subsequent movement of capital to less climate risky activities (across the range of climate change risks)

19. What are the key barriers that you believe the Task Force needs to overcome?

- Whilst the taskforce does not have a mandate to set compulsory requirements it is likely that the final recommendations and framework will be adopted as the de facto standard and become quasi-mandatory with the potential to become mandatory at least within some jurisdictions. The Taskforce is strongly encouraged to design for this outcome.
- Achieving the required flexibility to evolve will remain a difficult balancing act for the Taskforce, given that the understanding of what constitutes ideal climate change disclosure will evolve over time.
- Concerns over forward looking statements remain for the reasons outlined in the Taskforce's first report.

20. Is the Task Force focused on the appropriate set of topics for its Phase II work plan? Yes/No response if no please explain text box appears

Yes

21. What additional topics should it consider?

It is pleasing that the potential for conflicts between the principles has been acknowledged and discussed at a generic level within the TCFD's first report. Subsequent work into providing more detailed guidance on how these tensions might be managed and the types of considerations that should be made would be of benefit. For instance our research and engagement activities has demonstrated that the materiality of issues can be quite different for companies within the same industry sector. In this instance a focus on comparability (principle 5) may sacrifice the relevance of the information presented (principle 1). In this scenario our preference would be for fulsome reporting relevant to the risks that are the most material to a company's operations.

22. The Task Force plans to reach out to a broad sample of key stakeholders among preparers, users, and standard setters. Are there particular types of entities or organizations that you believe the Task Force should reach out to?

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