

MEMO# 33890

November 10, 2021

TCFD Implementation Guidance on Climate-Related Financial Disclosures

[33890]

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TO: ICI Members

ICI Global Members

ESG Advisory Group

ESG Task Force

EU ESG Disclosure Regulation Working Group SUBJECTS: ESG

Fund Accounting & Financial Reporting

International/Global RE: TCFD Implementation Guidance on Climate-Related Financial Disclosures

This memorandum summarizes the most significant aspects of the updated implementation guidance published by the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD"). The TCFD provides the guidance in two distinct documents:

- i. Guidance on Metrics, Targets, and Transition Plans;[\[1\]](#) and
- ii. Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures.[\[2\]](#)

The Metrics Guidance and the 2021 Annex build on the TCFD's previous guidance maintaining the TCFD's four overarching pillars: (i) Governance, (ii) Strategy, (iii) Risk Management, and (iv) Metrics and Targets. The Metrics Guidance provides illustrations related to the content of the 2021 Annex to help organizations disclose decision-useful metrics, targets, and transition plans.

This memorandum discusses the updated implementation guidance in the following order:

- Background on the TCFD's recommendations and relevant ICI comments;
- Updates on Guidance for All Sectors;[\[3\]](#)
- Supplemental Guidance for Asset Managers - Updates within Metrics and Targets recommendation;
- The 2021 Annex's full set of recommendations for asset owners and managers (Appendix A); and
- The 2021 Annex's recommended climate metrics for carbon footprinting and financed emissions, which the TCFD recommends asset managers and owners disclose

(Appendix B).

The 2021 Annex's two key recommendations are:

- i. all organizations should disclose Scope 1 and 2 emissions, regardless of materiality; and
- ii. all organizations should disclose Scope 3 emissions "if material and when appropriate."

1. Background on the TCFD's recommendations and ICI's Comments

Since the TCFD issued its recommendations on climate-related financial disclosures in 2017, it has sought to clarify how organizations should implement the recommendations by providing additional supporting guidance and other information in:

- The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities;[\[4\]](#)
- Guidance on Scenario Analysis for Non-Financial Companies;[\[5\]](#) and
- Guidance on Risk Management Integration and Disclosure.[\[6\]](#)

TCFD also conducted public consultations on:

- forward-looking metrics for financial institutions (October 2020); and
- a draft version of the guidance on climate-related metrics, targets and transition plans respectively (June 2021).

ICI responded to both consultations,[\[7\]](#) recommending that TCFD:

- for forward-looking metrics, follow a sequence that begins with companies overcoming the challenges associated with their reporting of climate-related metrics (e.g., limited availability and poor quality of emissions data; insufficient transparency into the methodologies used; and reliance on subjective assumptions and estimates);
- include Absolute Scope 1 and Scope 2 GhG emissions in the Guidance at this time, and conduct further work on additional metrics, including developing underlying methodologies; and
- require organizations to disclose metrics if they are financially material.

2. Updates on Guidance for All Sectors

A. On recommended disclosures within the Strategy recommendation

Financial Impacts. The 2021 Annex states that organizations should describe both the actual and potential impacts of climate-related risks and opportunities on their financial performance and financial position. The impacts may be described in qualitative, quantitative, or a combination of both qualitative and quantitative terms. TCFD encourages organizations to include quantitative information, where data and methodologies allow. While TCFD recognizes that disclosing the potential financial impact of climate change may not be consistent with financial filing requirements, it encourages organizations to disclose the relevant information in other "official reports" that are issued at least annually, widely distributed and available to users, and subject to an internal governance process that is the same or substantially similar to those used for financial reporting. The Metrics Guidance provides additional guidance on assessing and disclosing the financial impacts of climate-related risks and opportunities.[\[8\]](#)

Transition Plans. Organizations that have made greenhouse gas (GHG) emissions reduction commitments, operate in jurisdictions that have made such commitments, or have agreed to meet investor expectations regarding GHG emissions reductions should describe their plans for transitioning to a low-carbon economy. TCFD encourages organizations to disclose key information from their transition plans as part of their disclosure of climate-related financial information, including the following:

- current GHG emissions performance;
- impact of a low-carbon transition on businesses, strategy, and financial planning; and
- actions and activities to support the transition, including GHG emissions reduction targets and planned changes to businesses and strategy.

When describing their GHG emissions reduction targets, organizations should include the target dates as well as the scope and coverage. Organizations should also consider describing the assumptions, uncertainties, and key methodologies associated with their transition plans. Progress in executing the plans should be reported on an annual basis. TCFD provides guidance on the considerations around the disclosure of transition plans, as well as example disclosures, in the Metrics Guidance.[\[9\]](#)

B. Recommended regarding Climate-related Metrics and Targets

Climate-related Metrics. TCFD recommends that all organizations disclose the following seven categories of cross-industry climate-related metrics[\[10\]](#) for the current, historical, and forward-looking periods:

- GHG emissions - Absolute Scope 1, Scope 2, and Scope 3 emissions intensity;
- Transition risks - amount and extent of assets or business activities vulnerable to transition risks;
- Physical risks - amount and extent of assets or business activities vulnerable to physical risks;
- Climate-related opportunities - proportion of revenue, assets, or other business activities aligned with climate-related opportunities;
- Capital deployment - amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities;
- Internal carbon prices - price on each ton of GHG emissions used internally by an organization; and
- Remuneration - proportion of executive management remuneration linked to climate considerations.[\[11\]](#)

Assessment of Materiality. The 2021 Annex specifies that all organizations should disclose absolute Scope 1 and Scope 2 GHG emissions independent of a materiality assessment. In contrast, while TCFD strongly encourages organizations to disclose Scope 3 GHG emissions, it ultimately concludes that such emissions should be disclosed "when material and as appropriate." Similarly, organizations should conduct a materiality assessment for other cross-industry, climate-related metric categories to determine whether disclosure is appropriate. It specifies that organizations should determine materiality for climate-related metrics consistent with how they determine the materiality of other information in their financial filings.

Climate-related Targets. TCFD encourages organizations to reference existing target-setting frameworks for sector-specific guidance.[\[12\]](#) Any medium- and long-term targets should have interim targets set at appropriate intervals covering the full medium- or long-term

target time horizon. Climate-related targets should be reported on at least an annual basis, including any new targets as well as progress against existing targets.[\[13\]](#)

3. Supplemental Guidance for Asset Managers - Updates within Metrics and Targets recommendation

A. Disclosure on portfolio alignment

The 2021 Annex provides that asset managers should describe the extent to which their assets under management and products and investment strategies, where relevant, are aligned with a well below 2 °C scenario ("portfolio alignment"), using whichever approach or metrics best suit their organizational context or capabilities. This could include forward-looking metrics, GHG emissions targets and progress against them, reducing emissions in their operations and value chains, and engagement with investee companies on their transition to a low-carbon economy. While the supplemental guidance for asset managers addresses considerations when reporting to clients, TCFD believes that an asset managers' disclosure on portfolio alignment may also be of interest to a wider range of stakeholders. Thus, TCFD encourages asset managers to disclose this information publicly, where appropriate.

Acknowledging the challenges to implementing portfolio alignment methodologies, TCFD encourages organizations to disclose qualitative and quantitative information given existing data and methodologies. Further, TCFD requested the Portfolio Alignment Team to develop a report outlining potential approaches and associated design decisions for portfolio alignment tools as a resource for financial organizations interested in exploring portfolio alignment.[\[14\]](#)

B. Disclosure on GHG emissions

TCFD recommends that asset managers disclose weighted average carbon intensity ("WACI") for each product or investment strategy and GHG emissions for their assets under management where data and methodologies allow. These emissions should be calculated in line with the Global GHG Accounting and Reporting Standard for the Financial Industry developed by the Partnership for Carbon Accounting Financials ("PCAF Standard") or a comparable methodology. The 2021 Annex include a table on GHG emissions metrics for banks, asset owners, and asset managers.[\[15\]](#)

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endnotes

- [1] See Guidance on Metrics, Targets, and Transition Plans, October 2021, *available at* https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf ("Metrics Guidance").
- [2] See Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, October 2021, *available at* https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf ("2021 Annex").
- [3] The 2021 Annex explains that "Guidance for All Sectors" is "guidance providing context and suggestions for implementing the recommended disclosures for all organizations." See 2021 Annex at p. 6.
- [4] See The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities, June 2017, *available at* <https://assets.bbhub.io/company/sites/60/2021/03/FINAL-TCFD-Technical-Supplement-062917.pdf>.
- [5] See Guidance on Scenario Analysis for Non-Financial Companies, October 2020, *available at* https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf.
- [6] See Guidance on Risk Management Integration and Disclosure, October 2020, *available at* https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Risk-Management-Integration-and-Disclosure.pdf.
- [7] See ICI Memorandum No. 33073 (27 January 2021), *available at* <https://www.ici.org/memo33073>, and ICI Memorandum No. 33694 (20 July 2021), *available at* <https://www.ici.org/memo33694>.
- [8] See Metrics Guidance at Section F, p.46-52.
- [9] See Metrics Guidance at Section E, p.39-44.
- [10] TCFD acknowledges that not all organizations will have the resources to present quantitative information across all metric categories, but encourages them to begin doing so where resources and expertise allow.
- [11] Further details on the cross-industry, climate-related metric categories can be found in the Metrics Guidance at Section C.2 and C.3, p.13-26.
- [12] These include the London Stock Exchange Group's Target Setting Framework (described in this section), UN-Convened Net-Zero Asset Owner Alliance Inaugural 2025 Target Setting Protocol, CA100+, Net Zero Company Benchmark, Paris Aligned Investment Initiative (PAII), Net-Zero Investment Framework: Implementation Guide, and SBTi's Financial Sector Science-Based Targets Guidance.
- [13] Guidance on selecting and disclosing climate-related targets are provided in Metrics Guidance at Section D, p. 30-37.

[14] See Measuring Portfolio Alignment: Technical Considerations, October 2021, *available at* https://www.tcfhub.org/wp-content/uploads/2021/09/PAT_Measuring_Portfolio_Alignment_Technical_Considerations.pdf.

[15] See 2021 Annex at Table 2, pps.50-51.

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