Response: TCFD Consultation on Climate Related Metrics, Targets and Transition Plans

19 July 2021

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 250 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges are home to nearly 53,000 listed companies, and the market capitalisation of these entities is over $95 trillion, while the 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up $1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

Sana Awan, Manager, Regulatory Affairs: sawan@world-exchanges.org

Richard Metcalfe, Head of Regulatory Affairs: rmetcalfe@world-exchanges.org

Pedro Gurrola-Perez, Head of Research: pgurrola@world-exchanges.org

Nandini Sukumar, Chief Executive Officer: nsukumar@world-exchanges.org

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Summary of Key Points to Highlight

The WFE welcomes the opportunity to respond to the TCFD's consultation on updating its guidance related to Climate Related Metrics, Targets and Transition Plans. The risks presented by climate change to business and society are clear, and we support the TCFD's efforts to produce a framework that provides transparency and accountability on climate risk.

Our members have traditionally played a key role in promoting corporate sustainability and have been involved in this debate for over a decade. Exchanges are uniquely positioned to guide companies on compliance with standards, enable dialogue with market participants and can help to accelerate the movement of capital towards green solutions. In 2018, the WFE's Sustainability Working Group (SWG) produced a set of Sustainability Principles, which constitute a formal commitment by exchanges to lead in promoting sustainable finance. Our Annual Sustainability Survey shows that 78% of our members have made a formal commitment to sustainability and 73% have a dedicated resource to oversee the exchange's sustainability initiatives.

Our latest Sustainability Survey results also demonstrate that the demand from investors for ESG related disclosure continues to grow. 27% of our members have formally endorsed the TCFD recommendations that guide issuers through: managing the impact of climate change; focusing on the effects of climate change on their business; and communicating this to all stakeholders. Whilst uptake of the TCFD framework amongst our membership is growing, expectations around the application of the framework should also be reflective of local arrangements.

We recognise that aspects of the guidance are not directly relevant to exchanges, but wish to stress that exchanges are at the heart of the financial-services ecosystem. Exchanges can play a key role in educating market participants and – via the WFE -- promoting a globally consistent approach to meaningful disclosure that supports effective capital allocation.

Based on extensive engagement with both users and preparers of accounts, WFE members propose the following refinements to the TCFD guidance.

Climate Targets:

- Companies' climate-related targets are found in a range of sources and formats, creating difficulties in consistency and comparability. The creation of a standardised format would help remedy this and could build upon the SSE Model Guidance on Climate Disclosure, as well as the CA100+ net zero benchmark. Targets would also benefit from third-party review and assurance. As announced in its Report on Sustainability-related Issuer Disclosures, we welcome the body of work that the International Organisation of Securities Commissions (IOSCO) will take forward with the IFRS Foundation Trustees to influence the development of an audit and assurance framework.

- Drawing on IOSCO's 'Building Blocks' approach, the TCFD should consider providing further guidance on how the framework can be adopted in a more proportionate way which acknowledges the different capabilities of reporting companies, particularly Small and Medium Sized Enterprises (SMEs). Tailored guidance which balances their specific governance, organisational and resource requirements with the need for climate related information would be useful to both preparers and users of accounts. This could be reflected in the supplemental guidance (e.g. the metrics section) for all sectors.

- The TCFD recommends that organisations should provide climate-related opportunity metrics, such as revenue from products and services designed for a lower-carbon economy. Some of these opportunities will provide new 'green revenue' to the business. We would encourage the TCFD to consider including green revenues on the list of key climate metrics, to build a holistic view of a company's approach to transition. One challenge in reporting opportunities is defining which product or service to identify. Taxonomy frameworks, which provide a classification system to determine whether an economic activity is environmentally sustainable could help with this and, in their absence, the TCFD guidance could make clear that issuers can use existing best practice definitions that are specific to their markets.

- In principle, we support tying executive compensation to climate-related targets, and a number of issuers already do this. This can send a powerful signal as to intentions of the board and can be a way to mobilise change. However, there is i) a proliferation of ESG related Key Performance Indicators (KPIs), while ii) two different assessors will mark a given company very differently on the same KPI. Furthermore, broader strategic indicators may be less stretching and could end up paying out more than objective financial measures. From a wider governance perspective this could lead to unintended consequences, by incentivising perverse behaviours which encourage directors to hit performance targets, whilst distracting board attention from more fundamental questions. We would ask the TCFD to encourage issuers to robustly calibrate targets, identifying the issues that are material to that company.

- We support a materiality assessment. There is still no consensus on the question of single vs double materiality, but we welcome the 'Building Blocks' approach now being embraced by IOSCO. As part of this, the Reporting on Enterprise Value Report sets out a graduated approach to disclosure. This model focuses on information that is material to the decisions of investors and creditors, but also acknowledges that sustainability issues are dynamic and can evolve to become more (or less) financially material over time, i.e. reporting on sustainability matters that have an impact on societal issues. We would ask that the TCFD guidance acknowledges the broad range of views on the materiality debate.

Climate Transition Plans:

- Forward-looking disclosures within transition plans enable investors and other users of accounts to assess a company's future financial performance but are often qualitative and not sufficiently supported by narrative context. This could act as a deterrent to companies listing, to the extent that it gives rise to increased directors' liability in cases where information is omitted, misleading or inaccurate. Whilst directors can seek safe-harbour protections, we note that mandatory disclosure against the TCFD framework could lead to an increase in Directors & Officers insurance premiums.