



London Stock Exchange Group response to the Recommendations Report of the Financial Stability Board Task Force on Climate-Related Financial Disclosures

EXECUTIVE SUMMARY

London Stock Exchange Group (“LSEG”) welcomes the opportunity to respond to the Recommendations Report of the Financial Stability Board (“FSB”) Task Force on Climate-Related Financial Disclosures (“TCFD”).

- **LSEG role.** Global financial markets and international institutions are responding to climate change by **embracing a transition to the low carbon economy**. We play a key role in this transition, as we promote greater transparency around risk and opportunities related to various financial and non-financial disclosures. On our markets, we list green companies and bonds. FTSE Russell, part of LSEG, is a global leader in environmental, social and governance (“ESG”) indexing and analytics. In February 2017, **LSEG has launched ESG guidelines, as a result of our commitment as an active member of the UN Sustainable Stock Exchange initiative**, to establish guidance for all issuers on our UK and Italian Markets on best practice voluntary ESG reporting to investors.
- **Feedback from the Phase I Report.** We are pleased by the fact that the TCFD took into account several recommendations put forward by LSEG and the various industry participants in the responses to the Phase I report in April 2016, in particular on **green revenue, sector approach, and standardization in frameworks**. The TCFD recommendations were much anticipated by the industry and regulators alike. And we are pleased they strike a balance between encouraging supply of consistent, easily comparable and reliable data and the need to avoid overly prescriptive requirements, particularly where global consensus has not yet been reached
- **Way forward.** Climate change can affect financial stability in the long run and therefore we offer a **long-term commitment** to the issues underpinning it. We are a founding member of the **European Commission High Level Expert Group on Sustainable Finance (“HLEG”)**, tasked with drafting recommendations for a comprehensive EU strategy on sustainable finance to determine how to integrate sustainability considerations into the EU's rules for the financial sector. This marks an important step in the follow-up to the EU's 2030 Agenda for sustainable development as well as the Paris Agreement on climate change.



ALL SECTOR RECOMMENDATIONS AND GUIDANCE

The Task Force structured its recommendations around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets (see page 16 of the TCFD report). The Task Force believes it is important to understand the financial and strategic implications associated with climate-related risks and opportunities on organizations as well as the governance and risk management context in which organizations operate.

How useful are the Task Force’s recommendations and guidance for all sectors in preparing disclosures about the potential financial impacts of climate-related risks and opportunities? Please select ONE only.

- **Very useful X**
- Quite useful
- Neither/nor
- Not very useful
- Not useful at all
- Don’t know

Please provide more detail on your response in the box below.

- We welcome the approach adopted by the Task Force, in particular that the recommendations’ key features are:

1. Adoptable by all organizations – LSEG in its own recommendations on ESG disclosure highlights the importance for disclosures to be provided by all organizations, regardless of size and sector;

2. Designed to solicit decision-useful, forward-looking information on financial impacts – LSEG in its own ESG disclosure guidelines supports an investor materiality approach to the identification of relevant ESG issues.

3. Strong focus on risks and opportunities related to transition to lower-carbon economy – LSEG in its own guidelines recommends that ESG disclosures have strategic relevance and green revenue reporting.

4. Disclosure in mainstream financial filings – LSEG welcomes the voluntary adoption by companies of this principle, which builds on regulation already in place in the UK and in Italy regarding the disclosure of certain ESG parameters in the strategic report of the annual report. However we do not take a position on whether this information should only be published in financial filings. In its own recommendations LSEG recognizes that there is a diversity of approaches including reporting in standalone sustainability reports and one is not necessarily better than another. However the



integrity of the data and information, where ever it is reported is important, as is the ease of finding that information too. LSEG therefore supports the task force expectation that “the governance processes for these disclosures would be similar to those used for existing public financial disclosures”, as in its own guidelines LSEG upholds the view that LSEG information should be ‘investment grade’.

- As a market infrastructure provider situated at a critical junction between issuers and investors, we appreciate the recommendations’ focus on transition risks and in particular market risks; and the fact that the recommendations highlight the role exchanges are expected to play in ensuring their adoption. LSEG has already incorporate references to the recommendations in its own guidelines to ESG reporting to investors

<http://www.lseg.com/documents/esg-guidance-report-lseg-pdf-0>

- LSEG in particular welcomes the importance that the recommendations place on **climate-related opportunities**. As an exchange group home to 2,700 companies from all sectors across the UK and Italy, we encourage in our own guidelines the disclosure of green revenues, which will enable investors to measure the depth and breadth of the transition to a low-carbon economy already under way on global markets. A number of asset owners now want to increase green revenue exposure in their portfolios and this is also being built into benchmarks being used by institutional investors.
- Based on London Stock Exchange Group’s expertise in the development of ESG disclosure metrics and targets through its FTSE Russell index and analytics business, we put forward the following suggestions to improve the consistency and comparability of climate-related KPIs:
 - Targets (disclosure c of section 4 – metrics and targets): the TCFD should encourage companies to disclose their base year emissions/intensity. This will help the user assess the progress against the target.
 - Scope 2 (disclosure b of section 4 – metrics and targets): the TCFD should consider the issues around location vs market based emissions, as market based emissions reflect the real energy mix of the company.
 - Scope 1 (disclosure b of section 4 – metrics and targets): the TCFD should encourage companies



	<p>to provide breakdown by country and GHG type. The companies should disclose the conversion factors (GWP¹) used to calculate their CO2 equivalent emissions from all the different GHG gases.</p> <ul style="list-style-type: none"> ○ Boundaries (disclosure b of section 4 – metrics and targets): the TCFD recommends using the GHG protocol but we believe that TCFD could also ask companies to use the same boundaries they use for their financial reporting, and to use the same reconciliation methodology. How reporting boundaries are defined is an area that needs more work and consistency. ○ Disclosure c) strategy: the task force could consider providing tools to help build targets in line with the 2 degree scenario.
<p>SUPPLEMENTAL GUIDANCE</p>	
<p><i>How useful is the Task Force’s supplemental guidance for certain sectors in preparing disclosures about the potential financial impacts of climate-related risks and opportunities? Please see the TCFD Annex for supplemental guidance. Please select ONE only.</i></p>	<ul style="list-style-type: none"> • Very useful • <u>Quite useful X</u> • Neither/nor • Not very useful • Not useful at all • Don’t know
<p><i>Please provide more detail on your response in the box below.</i></p>	<ul style="list-style-type: none"> • A critical area for further work is to refine the sector metrics; for example there would be benefit: <ol style="list-style-type: none"> 1) In the energy sector electric utilities and oil & gas companies having different metrics 2) In the transportation sector automobiles and marine transportation having different metrics. • The indicators are very useful for the financial sector. The Article 173 of the French Energy Transition law provides a good model; it sets a clear direction, but given the early stages in this form of reporting it allows a diversity of approaches, rather than being too prescriptive which can stifle innovation. • Energy sector: <ul style="list-style-type: none"> ○ Disclosure b) Strategy: The task force could consider encouraging companies to disclose their fuel/energy mix and their reduction target

¹ https://www.ipcc.ch/publications_and_data/ar4/wg1/en/ch2s2-10-2.html



	<p>within the context of the company's climate change strategy.</p> <ul style="list-style-type: none"> • Transportation: <ul style="list-style-type: none"> ○ Disclosure a) metrics and targets: the TCFD should encourage companies to disclose revenue and/or sales (volume) from advanced vehicles (electric, PHV, etc.). ○ Disclosure b) metrics and targets: Given the recent controversies for this sector, in addition to GHG emissions other pollutants are also highly relevant. However we appreciate this may be out of scope for the TCFD. • Agriculture, food, and forests products: Scope 3 emissions are particularly important for these sectors. More work is required to better define reporting metrics for supply chain emissions.
<p>ORGANIZATIONAL DECISION-MAKING</p>	
<p><i>If organizations disclose the recommended information (or information consistent with the Task Force's recommendations), how useful will that information be to your organization in making decisions (e.g., investment, lending, and insurance underwriting decisions)?</i></p>	<ul style="list-style-type: none"> • Very useful • <u>Quite useful X</u> • Neither/nor • Not very useful • Not useful at all • Don't know
<p><i>Please provide more detail on your response in the box below.</i></p>	<ul style="list-style-type: none"> • Qualitative information is also important in FTSE Russell's data gathering and analysis.
<p>ADDITIONAL DISCLOSURES</p>	
<p><i>What other climate-related financial disclosures would you find useful that are not currently included in the Task Force's recommendations? Please provide your response in the box provided.</i></p>	<ul style="list-style-type: none"> • Please see our responses to the questions 2 & 4. • Although there are references in the recommendations to providing details on the opportunities from the transition to a low carbon economy more emphasis could perhaps be applied to more detailed sub-segment reporting of revenues (especially associated with green products) to enable this. FTSE Russell has identified 60 green subsectors and maps reported corporate revenues against these but revenue reporting from most companies is not granular enough.



SCENARIO ANALYSIS	
<p><i>The Task Force recommends organizations describe how their strategies are likely to perform under various climate-related scenarios, including a 2°C scenario (see page 16 of the TCFD report). How useful is a description of potential performance across a range of scenarios to understanding climate-related impacts on an organization’s businesses, strategy, and financial planning? Please select ONE only.</i></p>	<ul style="list-style-type: none"> • Very useful • <u>Quite useful X</u> • Neither/nor • Not very useful • Not useful at all • Don’t know
<p><i>Please provide more detail on your response in the box below.</i></p>	<ul style="list-style-type: none"> • This is a new and evolving area and each organization will take very different approaches. Whilst for certain companies and sectors there may be benefits, the value of disclosing such information across all sectors is not yet clear.
<p><i>The Task Force recognizes that there are challenges around disclosing sufficient information to allow a better understanding of the robustness of an organization’s strategy and financial plans under different plausible climate-related scenarios. Some challenges may arise from unfamiliarity with scenario methodologies and metrics, insufficient practice standards, or cost. What do you view as effective measures to address potential challenges around conducting scenario analysis and disclosing the recommended information? Please rank up to three most effective factors that apply. Please rank by dragging from left to right where "1" is your top factor.</i></p>	<ul style="list-style-type: none"> • We have no further comments on scenario disclosure.
<p><i>Please provide more detail on your response in the box below.</i></p>	<ul style="list-style-type: none"> • We have no further comments on scenario disclosure.



METRICS AND TARGETS	
<p><i>The Task Force is recommending that organizations disclose the metrics they use to assess climate-related risks and opportunities in line with their strategy and risk management process. For certain sectors, the report provides some illustrative examples of metrics to help organizations consider the types of metrics they might want to consider. How useful are the illustrative examples of metrics and targets?</i></p>	<ul style="list-style-type: none"> • <u>Very useful X</u> • Quite useful • Neither/nor • Not very useful • Not useful at all • Don't know
<p><i>Please provide more detail on your response in the box below.</i></p>	<ul style="list-style-type: none"> • We believe that they are useful, but the TCFD could go further by providing more details on proposed metrics across sectors. This is an area for more work.
CARBON-RELATED ASSETS IN THE FINANCIAL SECTOR	
<p><i>Part of the Task Force's remit is to develop climate-related disclosures that would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector. Beyond the metrics included in the Task Force's guidance, and supplemental guidance, what other metrics could be used to measure carbon-related assets in the financial sector? Please provide your responses in the boxes provided.</i></p>	<ul style="list-style-type: none"> • Exposure to carbon and low carbon transition opportunities and risks by asset class
<p><i>The Task Force is recommending that organizations provide key metrics used to measure and manage climate-related risks and opportunities. For example, the Task Force recommends that asset owners (including insurance companies) and asset managers report normalized</i></p>	<ul style="list-style-type: none"> • We support TCFD in encouraging disclosure of key metrics to measure and manage exposure to climate-related risks and opportunities across portfolios. However, this must remain flexible and encourage a variety of metrics and approaches. Such flexibility would allow covering exposure to emissions and reserves as well as green industries.



<p><i>Greenhouse Gas emissions associated with investments they hold (for each fund, product, and strategy) using available data (see Annex pages 35 and 41). Please describe your views on the feasibility of implementing the above recommendation. Please provide your response in the box provided.</i></p>	
<p>GREENHOUSE GAS EMISSIONS (GHG) ASSOCIATED WITH INVESTMENTS</p>	
<p><i>How useful would the disclosure of Greenhouse Gas emissions associated with investments be for economic decision-making purposes (e.g., investing decisions)? Please select ONE only.</i></p>	<ul style="list-style-type: none"> • Very useful • <u>Quite useful X</u> • Neither/nor • Not very useful • Not useful at all • Don't know
<p><i>Why do you say that? Please provide your response in the box provided.</i></p>	<ul style="list-style-type: none"> • This component of investor reporting is still at an early stage with a number of estimation and validation models applied. Despite these limitations which must be acknowledged, we do regard this as an important area and encourage reporting of this alongside other related exposures including to green industrial sectors and to carbon reserves in order to get a more balanced picture of portfolio exposure.
<p>REMUNERATION</p>	
<p><i>Which types of organizations should describe how performance and remuneration take climate-related issues into consideration? Please select ALL that apply.</i></p>	<p>We have no comment on this section.</p>
<p>ADOPTION AND IMPLEMENTATION</p>	
<p><i>What do you view as the potential difficulties to implementing the disclosures? Please select ALL that apply.</i></p>	<ul style="list-style-type: none"> • <u>The information requested could be commercially sensitive X</u> • <u>The time and cost of collecting the information X</u> • Climate-related disclosure is not part of our current regulatory requirements • <u>Lack of experience with concepts and methodology X</u>



	<ul style="list-style-type: none"> • <u>Multiple climate-related reporting frameworks currently exist X</u> • <u>Other (please specify) X</u> <ul style="list-style-type: none"> ○ Climate-related disclosure is not part of our current regulatory requirements - For certain markets such as the USA. • We do not anticipate any difficulties related to implementing the disclosures
<p><i>What drivers, if any, do you think would encourage you to adopt the recommendations? Please select ALL that apply.</i></p>	<ul style="list-style-type: none"> • <u>Requests from investors to disclose X</u> • <u>Requests from clients or beneficiaries X</u> • <u>Reputational benefits and goodwill from adoption X</u> • <u>Inquiries or requests from debt or equity analysts X</u> • <u>Adoption by industry peers X</u> • <u>Other (please specify): regulatory requirements X</u> • None of the above
<p><i>What support or actions would be helpful to you in implementing the disclosures within the next two years? Please provide your response in the box provided.</i></p>	<ul style="list-style-type: none"> • As a capital markets infrastructure business LSEG's implementation of the recommendations is multifaceted including the type of data that FTSE Russell builds into its services and the type of reporting recommendations we make to issuers on our markets. More sector specific metric formation would be one area where we can perhaps both contribute to and benefit from.
<p><i>The Task Force's recommendations are focused on disclosure in financial filings; within what timeframe would your organization be willing to implement the recommendations in financial filings? Please select ONE only.</i></p>	<ul style="list-style-type: none"> • We already report these disclosures in financial filings • In the next one to two years • In three to five years • We do not intend to implement the recommendations • <u>Don't know (please explain) X</u> <ul style="list-style-type: none"> ○ As an exchange we will reflect them in our reporting guidance to issuers immediately and as a listed company we will consider how over time we can draw from the recommendations in our own reporting.
<p>ADDITIONAL FEEDBACK</p>	
<p><i>What additional feedback you would like to provide the Task Force on the recommendations? Please provide your response in the box provided.</i></p>	<ul style="list-style-type: none"> • We would be delighted to discuss ways in which we can work with the TCFD in taking forward resulting work streams.