RFI Foundation Comment
Transition Plans Taskforce (TPT) – “Banks Sector Guidance”
Submitted 28 December 2023

Question 3.2: You said that the TPT Banks Guidance was not useful in supporting effective disclosure in line with the TPT Disclosure Framework. Please explain why you gave that answer

Thank you for the opportunity to provide comment on the sector guide for Banks under the Transition Plan Taskforce guidance. The topic on which our comment is focused is whether users of the transition plans that this guidance is designed to serve will benefit from the application of a materiality threshold for ‘shall’ items.

The guidance for transition plans released by the TPT is designed to “complement, and build on, the ISSB’s final Standards IFRS S1 and S2, as well as drawing on the GFANZ’s framework”. The ISSB S2 standard defines scope as relating to physical and transition risk, specifically excluding “risks and opportunities that could not reasonably be expected to affect an entity’s prospects” (IFRS S2 §4).

Given the connection between the TPT guidance (including the sector guidance on which we are commenting) and the IFRS Climate Disclosure Standard (S2), we question whether it is necessary to condition the reporting of individual elements of the transition plan guidance to a materiality assessment.

The IFRS S2 standard requires disclosure of information about its “climate-related transition plan” (IFRS S2 §9(c)) which includes “information about key assumptions used in developing its transition plan, and dependencies on which the entity’s transition plan relies [and] how the entity plans to achieve any climate-related targets, including any greenhouse gas emissions targets” (IFRS S2 §14(a)(iv) and (v)).

Since a materiality assessment has already been performed to determine the disclosure of a transition plan, the guidance contained in the banks’ sectoral guidance that qualifies certain ‘shall’ disclosures as being subject to materiality assessment provides loopholes that weakens the usability for users of the reporting. In addition to providing loopholes at all, it is likely that the presence of these loopholes that weaken specific elements of the sectoral guidance will be inequitably used.

You said that the TPT Banks Guidance was not useful in explaining the Strategic and Rounded Approach concept for the sector. Please explain why you gave that answer.

In general, the materiality of climate-related risks for banks will be greatest for those with the largest, most complex balance sheets. These banks are likely to be the same ones with substantial financial resources available to conduct materiality assessments to reduce their reporting requirements for different elements that in isolation do not meet the financial materiality test from investors’ perspective.

Despite meeting the letter of the guidance, the ability to avoid disclosures about individual sections of the sectoral guidance will weaken the usefulness of the transition plans as a whole for the users of the transition plan disclosures.

You said that the TPT Banks Guidance was not useful in explaining the *Impacts and dependencies: stakeholders, society, and the economy* concept for the sector. Please explain why you gave that answer.

The selective disclosure allowed through enabling entities to subject individual elements of the Transition Plan disclosures to a materiality assessment will particularly affect social considerations relating to a transition plan, which may have material financial impacts to the entity only over the medium-term or longer.

Evaluating a transition plan that omits these elements (especially when comparing peer institutions) could incentivize dynamic inconsistency where the presence of transition plans supports actions in the short-term that are inconsistent with what is required to produce a Just Transition over the medium-term.

This issue is particularly important for banks whose financial decisions today enable the creation of assets that will determine the shape of the transition over the medium- and long-term and need to be based on full and complete information that reflects the way decisions in the short-term are expected to be consistent with medium-term outcomes that align to general expectations for a Just Transition, and which are therefore sustainable over the life of the assets financed.

Question 6.1: Do you have any additional feedback on the TPT Banks Guidance?

The sector guidance for banks is already flexible enough in how banks will disclose the details of their transition plan, and it would be preferable to set the requirement for the entity that it "must disclosure whether and how it has identified, assessed and taken into account the impacts and dependencies of the transition plan on its stakeholders, […] society, […] the economy, and the natural environment, throughout its value chain, that may give rise to sustainability-related risks and opportunities."

Each of the elements of "Foundations", "Implementation Strategy", "Engagement Strategy", "Metrics & Targets" and "Governance" will be required elements but reporting entities will retain the flexibility in <u>how</u> they make these disclosures, not <u>whether</u> they do. This will promote a better degree of proportionality between larger and better resourced entities, especially those from developed countries and those that are smaller, less well resourced, especially those from emerging markets & developing economies.

The former group (large and developed market entities) may have greater numbers of mandatory sustainability reporting requirements that include transition plan disclosures already and users of their reports will benefit from clarity related to what they <u>must</u> disclose in relation to their transition plans. This is important to mitigate 'greenhushing', a form of greenwashing where companies avoid disclosing information that they don't want users of their financial statements to evaluate their performance on in the future.

The latter group (smaller and EMDE entities) will benefit from a list of disclosures they should make, and guidance to supplement gaps in mandatory disclosures about what they <u>should</u> disclose, subject to the most appropriate form of disclosure. This can provide a common list of items that can form the basis for a roadmap for entities to develop and enhance their transition plans, as well as for other stakeholders to support with capacity building and technical assistance.

The TPT Banks Guidance is one of seven TPT Deep Dive Sector Guidance documents. Do you have any feedback on the suite as a whole?

Issues raised relating to materiality of transition plan (as a whole) versus transition plan elements (assessed individually) may face analogous issue for other sectors included with Deep Dive Sector Guidance.