BlackRock

April 30, 2024

Reserve Bank of India

Submitted via email to: sfgdor@rbi.org.in

Re: BlackRock's comments on Disclosure Framework on Climate-related Financial Risks, 2024

To whom it may concern:

BlackRock[1] is pleased to have the opportunity to provide comments and feedback to the "Draft Disclosure Framework on Climate-related Financial Risks, 2024"[2], issued by the Reserve Bank of India[3] on February 28, 2024.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing regulatory benefits versus implementation costs. We welcome the opportunity to comment on the Draft Disclosure Framework and seek to contribute to the thinking of RBI on any issues that may assist in the final outcome.

Executive Summary

BlackRock, as an asset manager, has fiduciary responsibilities to our clients to act in their best interests. To that end, BlackRock Investment Stewardship (BIS) engages with companies to understand how they are managing material risks and opportunities in their business models and votes at shareholder meetings, for those clients who authorize us to vote on their behalf, to signal support for or concerns about a company's performance.[4] Our investment stewardship efforts are focused on advancing our clients' long-term financial interests at the public companies in which they invest. In the context of this consultation, our engagements may include discussions on how material climate risks and opportunities are integrated into their governance, strategy, and risk management. As such, we welcome RBI's proposals for Regulated Entities (REs)[5] to implement a robust climate-related financial risk management policies and processes, and to disclose information about their material climate-related financial risks and opportunities for the users of financial statements.

We are supportive of efforts to provide a global baseline of standards to promote the disclosure of more reliable, comparable and consistent climate-related information for investors. Therefore, we appreciate

[1] BlackRock is a publicly traded investment management firm that provides a broad range of investment management and technology services to institutional and retail clients worldwide. The assets BlackRock manages belong to its clients which include public and private pension plans, insurers, official institutions, endowments, universities, charities, family offices, wealth managers, and, ultimately, the individual investors that they serve, many of whom are saving for retirement.
[2] Reserve Bank of India, "Draft Disclosure framework on Climate-related Financial Risks, 2024", February 28, 2024.
[3] Reserve Bank of India, "Press Release: RBI invites comments on the Draft Disclosure framework on Climate-related Financial Risks, 2024", February 28, 2024.
[4] By material sustainability-related risks and opportunities, we mean the drivers of risk and long-term financial value creation in a company's business model that have an environmental or social dependency or impact. Examples of environmental issues include, but are not limited to, water use, land use, waste management and climate risk. Examples of social issues include, but are not limited to, human capital management, impacts on the communities in which a company operates, customer loyalty and relationships with regulators. It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. Governance is the core means by which boards can oversee the creation of durable, long-term financial value. Appropriate risk oversight of business-relevant and material sustainability-related considerations is a component of a sound governance framework.
[5] As detailed in the "Draft Disclosure framework on Climate-related Financial Risks, 2024", the guidelines shall be applicable to all Scheduled Commercial Banks (excluding Local Area Banks, Payment Banks and Regional Rural Banks), All Tier-IV Primary (Urban) Co-operative Banks, All All-India Financial Institutions (viz. EXIM Bank, NABARD, NaBFID, NHB and SIDBI) and All Top and Upper Layer Non-Banking Financial Companies (NBFCs).

that RBI's Draft Disclosure Framework introduces disclosure requirements that references the ISSB standards as it may better enable investors to assess company-specific material climate-related risks and opportunities.

We broadly agree with the disclosure requirements proposed in the Draft Disclosure Framework. However, we note that disclosures of REs including asset managers and banks are dependent on the disclosure of others, as RE's climate impact is predominantly through financed emissions rather than through its direct operating emissions. Therefore, we believe it could be premature to ask REs to mandatorily report on details of climate metrics and targets if the rest of the economy isn't required to report.

In our detailed response below, we also note that in some instances there remains a need for flexibility in disclosure areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving. In our opinion, prematurely requiring mandatory reporting for such disclosure topics could have the unintended consequence of discouraging early adopters or divert REs' reporting efforts away from other important reporting for investors. As such, we would recommend RBI to consider a "comply or explain" approach for certain actively evolving metrics and targets (please refer to our response below on mandatory reporting for more).

Further, we encourage RBI to work with market participants, as well as standard setters like the ISSB, to continue developing implementation guidance and capacity building efforts for Indian REs. We believe that it would be beneficial for Tier-IV Urban Co-operative Banks (UCBs) in particular to receive more guidance on the commencement timeframe for "enhanced disclosures" as well as implementation guidance on transitioning from "baseline disclosures" to "enhanced disclosures". We also note that this implementation guidance would also be especially useful for SCBs, AIFIs and NBFCs who are early on their climate-related reporting journey now expected to comply with the "enhanced disclosure" requirement.

General comments on Disclosure Framework on Climate-related Financial Risks, 2024

As long-term investors on behalf of our clients, BlackRock engages with companies to understand how both material climate risks and opportunities are integrated into their governance, strategy, and risk management. We maintain that long-term investors can benefit from greater disclosures that might result from RBI's proposal, by introducing disclosure requirements based on the IFRS S2 Climate-related Disclosures issued by ISSB.

We acknowledge RBI's proposed requirements on the framework and its purpose of asking regulated entities (RE) disclose information about their material climate-related financial risks and opportunities for the users of financial statements. It will foster an early assessment of climate-related financial risks and opportunities and also facilitate market discipline.

IFRS S1 & S2
We note that the Draft Consultation Disclosure framework only references IFRS S2 and climate-related disclosures issued by the ISSB. We believe that the ISSB Standards – both IFRS S1 and S2 – serves as a global baseline and helpful framework for corporate disclosures that provide investors with comparable information to assess the companies' mitigation of sustainability risks. In our understanding, IFRS S2, which is designed to be applied with IFRS S1 as a pair, can promote a common language to increase the comparability and consistency of companies' climate-related disclosures across jurisdictions only when it is founded on a global baseline of sustainability-related disclosure standard. As such, we recommend that RBI consider encouraging a flexible "comply or explain" approach for REs to begin reporting IFRS S1-aligned disclosures as well.

We believe under a "comply or explain" regime, companies' determination of whether to comply or explain will inevitably evolve as standards and methodologies mature and become more widely adopted, as well as when reporting infrastructure becomes more well-developed. This, coupled with investors increasingly requesting such information may also drive adoption and alignment with the ISSB Standards amongst REs beyond climate-related disclosures over time.

Our view on mandatory reporting & commencement timeframe
We see value in the recommendation to mandate climate reporting for REs on a phased approach, differentiating the commencement timeframe between 1) SCBs (Scheduled Commercial Banks), AIFIs (All-India Financial Institutions), Top and Upper layer NBFCs (Non-Banking Financial Companies), and 2) Tier-IV UCBs (Primary (Urban) Co-operative Banks).

However, we are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of discouraging early adopters or diverting issuers' efforts from mature disclosure items that are important to get right. This is especially relevant for disclosure areas – for instance, Scope 3 disclosures and climate-related scenario analysis – where relevant climate data, science, standards, controls, and reporting methodologies are still evolving. When relevant standards and methodologies are not developed enough for data to be properly collected and rigorously reviewed, it is uncertain how the disclosure of such data would help long-term investors like our clients. As such, we recommend that more flexibility be given to all REs reporting on such disclosure areas, and that RBI considers a transitory "comply or explain" approach instead until the relevant standards and methodologies are completely developed. We believe under a "comply or explain" regime, issuers' determinations of whether to comply or explain will inevitably change as standards and methodologies mature and become more widely adopted, as well as when reporting infrastructure becomes more well-developed, leading to increasingly more comprehensive climate disclosures over time.

Further, we believe it is crucial for RBI to work with market participants and standard setters, like the ISSB, to develop industry-specific guidance and standards on disclosure requirements such as emissions intensity, Scope 3 emissions, and scenario analysis, as the challenges and need for flexibility could vary significantly across industries. Tier-IV UCBs in particular will also benefit from further guidance from RBI on 1) the commencement timeframe for "enhanced disclosures", as well as 2) implementation guidance to transition from "baseline disclosure" to "enhanced disclosure".

We also believe that after factoring the implementation experience of current REs under scope (SCBs, AIFIs, Top and Upper Layer NBFCs and Tier-IV UCBs), and the maturity of reporting methodology and infrastructure when a review is conducted, RBI would be better informed as to what commencement timeline and glidepath would be most appropriate for other REs currently not within current reporting scope.

Lastly, we maintain that there should be consideration of the guidance that is being developed both in India and other jurisdictions to ensure consistency in the reporting of transition plans to allow companies to disclose them more effectively.

Comments on 'Governance' pillar among the four thematic pillars

Governance structure (which could be Board, Committee or equivalent body(ies) or individual positions) responsible for the oversight of climate-related issues
We support the objective of enabling a company's stakeholders to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities, building on the recommendations of TCFD. In our view, robust oversight with respect to climate-related risks and opportunities benefits from a whole-of-the-board approach. While we recognize and appreciate that a dedicated committee of the board can be beneficial, especially for companies where climate risk and opportunities are material, the formation of such a committee should be at the discretion of the board.

Although RBI does not propose mandatory requirements for issuers to set up a dedicated committee or assign a dedicated person responsible for climate oversight, we do not think it is conducive to a holistic approach or, in some cases, appropriate to identify a specific individual responsible for oversight of climate-related risks and opportunities.[6]

The role of management in the governance processes, controls and procedures
Assessing and managing climate-related risks and opportunities is the purview of management, subject to appropriate board oversight. However, we do not believe issuers should be required to disclose specific details regarding management's process, but should instead consider which elements of its climate-related governance and risk oversight processes are relevant to its investors.
We note that RBI's proposed framework for "enhanced disclosure" requires REs to explain detailed information including whether the body(ies) or the individual position(s) consider climate related issues while (a) reviewing and guiding strategy, major plans of action, risk management policies, annual budgets and business plans (b) setting the organization's performance objectives, monitoring implementation and performance, and (c) overseeing their strategy, major capital expenditures, acquisitions, and divestitures, risk management processes and related policies; how the body(ies) or the individual position(s) oversees the setting of targets and monitors the progress to achieve those targets related to climate-related issues. We believe prescribing a more granular level of disclosures would likely require issuers to disclose a large volume of information that is, on the one hand, unlikely to be material for investors, and on the other hand, may be competitively sensitive for issuers. As mentioned above, we note that disclosures of REs including asset managers and banks are dependent on other corporate disclosure on climate-related risks and opportunities as RE's climate impact is predominantly through financed emissions rather than through its direct operating emissions. Therefore, we believe it could be premature to ask REs to mandatorily report on details of climate metrics and targets if the rest of the market is not required to report this information.

Comments on 'Strategy' and 'Risk Management' among the four thematic pillars

We broadly agree with the proposed disclosure framework on the 'Strategy' and 'Risk Management' pillars asking REs to disclose information including: 1) climate-related issues that could reasonably be expected to affect the RE's prospects (in terms of strategy, business model, decision-making, revenue, costs, assets, etc.), 2) description of specific climate related issues that would arise over various time horizons (short/ medium/ long term) and the material impact it could have on the RE, 3) description of the current and anticipated effects of climate-related financial risks and opportunities on the business model of the RE, 4) how the climate-related financial risks are monitored, 5) how the processes for identifying, assessing, prioritizing and monitoring climate-related financial risks and opportunities are integrated into the overall risk management process, and more. On the other hand, we note that as mentioned above, we do not believe issuers should be required to disclose too detailed information that is unlikely to be material for investors but competitively sensitive for issuers.

Climate scenario analysis used for identification of climate-related financial risks
We agree with the RBI's proposed requirements for climate-related scenario analysis but suggest considering a flexible approach to disclosing relevant information when companies are prepared to do so. We believe that where issuers choose to prepare and disclose scenario analysis, this may help a company's stakeholders assess the climate resilience of its strategy.

However, we note that for all issuers, regardless of industry, climate-related scenario analysis has proven to be one of the most challenging aspects of the TCFD recommendations. Measuring climate risk and quantifying its impacts on companies and the economy is inherently complex. As we acknowledge the current lack of uniformity across issuers in various industry sectors on the (i) most appropriate climate-

[6] Please note that we did not recommend against this part of the standards but was only sharing our views, especially when the ISSB standard does not actually require identifying a specific individual for climate oversight.

related assumptions to use, (ii) scenarios against which analysis should be conducted, and (iii) client response assumptions to utilize, we encourage RBI to provide more industry guidance and capacity building for REs on conducting climate scenario analysis. Until there is further evolution leading to consistency in climate scenario analysis, the current disclosure landscape may not be ready for a mandatory approach to climate-related scenario analysis to be reported in “enhanced disclosure”.

We find it reasonable if certain interim provisions allow disclosure of qualitative information or a work plan, which will be aligned with the flexibility provided by the proposed interim provisions for the disclosure of financial effects of climate-related risks and opportunities. An interim approach to disclosure will likely encourage more companies over time to provide such disclosures.

When a company discloses information about the climate scenario analysis it uses, we suggest an explanation of the selection of climate-related scenarios be provided in the context of its industry and long-term strategy to enable investors to evaluate the suitability of the chosen scenarios for assessing the sustainability of the company’s business model amidst climate-related uncertainties.

Comments on ‘Metrics and Targets’ among the four thematic pillars

The milestones and interim targets set for mitigating/adapting to climate-related financial risks
The disclosure of milestones or interim targets is valuable for investors’ assessment of an issuer’s preparedness and transition plan. We look to companies – where climate risks are identified to be material for - to provide meaningful short-, medium-, and long-term reductions targets, ideally science-based where available for their sector, for Scope 1 and 2 Greenhouse Gas (“GHG”) emissions. Without disclosure of any short- or medium-term targets, investors may struggle to assess the credibility of a transition plan and the progress made by a company along its transition pathway, despite a long-term (such as 2050 or 2060) net-zero commitment.

Scope 1,2 emissions and Scope 3 emissions:
We note that under “Enhanced Disclosures”, RBI requires REs to disclose the absolute Scope 1 and 2 GHG emissions generated during the financial year, and where data and methodologies permit, disclosure of Scope 3 GHG emissions. We welcome the efforts of the RBI to draw on the ISSB framework in determining what climate-related information issuers should disclose.

We support quantitative disclosure aligned with the Greenhouse Gas Protocol (“GHG Protocol”). As investors, we use GHG emissions estimates to size an issuer’s climate-related exposure. Specifically, we look to companies to provide Scope 1 and 2 GHG emissions disclosures, and meaningful short- , medium-, and long-term science-based reductions targets, where available. We support requiring issuers to disclose their Scope 1 and 2 GHG emissions estimates regardless of materiality, as this information helps investors assess exposure to climate-related risks and opportunities across a variety of sectors. Therefore, we suggest that RBI should consider including the requirement of absolute Scope 1 and 2 GHG emissions disclosures under “Baseline Disclosure” instead.

We also welcome companies voluntarily disclosing their Scope 3 emissions estimates where material. We believe it is important to be able to evaluate companies’ assessments of their emissions across their value chain, or Scope 3 emissions, as such emissions could affect the economic viability of their business models. However, at this stage, we view disclosures of Scope 3 emissions differently from Scope 1 and 2, given the methodological complexity, concerns about double-counting, and lack of direct control by companies over the requisite data to assess Scope 3 emissions. As such, we appreciate the flexibility given to REs to disclose Scope 3 emissions in so far as data and methodologies permit and recommend RBI to consider a “comply or explain approach” until further guidance can be provided by standard setters on how these disclosures can be reliable and consistent for investors, including with respect to materiality and the appropriate calculation methodology for each category of Scope 3 emissions.

Climate-related considerations factored into remuneration of Whole Time Directors/CEOs/Material Risk Takers
We note that it has been suggested that REs disclose whether and how climate-related considerations are factored into executives' remuneration under "Enhanced Disclosure". We do not have a position on the use of sustainability-related performance criteria, including climate-related considerations, in remuneration. But in our experience, where companies choose to include sustainability criteria in remuneration, they should be as rigorous as other financial or operational targets. When companies integrate sustainability-related criteria in their incentive plans, it is helpful if they clearly explain the connection between what is being measured and rewarded and the company's strategic priorities. Not doing so may leave companies vulnerable to reputational risks and/or undermine their sustainability efforts. As investors, we find it helpful when companies disclose these specific metrics and/or targets being used to measure performance and determine remuneration.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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