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## AFME response to Transition Plan Taskforce consultation on Banks Sector Guidance

21 December 2023

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The Association for Financial Markets in Europe (**AFME**) welcomes the opportunity to respond to the Transition Plan Taskforce (**TPT**) consultation on the TPT Banks Sector Guidance. AFME welcomes the work of the TPT to develop guidance for private sector transition plans. We strongly support the work to create a gold standard framework for disclosure on high-quality transition plans across economic sectors. Increasing the availability and comparability of transition plans for companies across the economy will provide valuable information for investors and banks as users of transition plans and help inform strategy setting. Our response reflects AFME's members' perspectives as both preparers and users of transition plans.

We set out below our initial feedback on the proposed Banks Sector Guidance. We request the opportunity to provide further feedback following this consultation on all aspects including the Disclosure Framework, Implementation Guidance and the Banks Sector Guidance (together, **the Framework**). Given that the Framework may be incorporated into law or regulation at a later stage, it is important to be able to consider further whether all aspects of the Framework are useful for preparers and users and that it meets the UK's aims in respect of transition and the bank sector.

We also strongly encourage the UK government and FCA to carefully consider, and consult upon, their approach to referencing the Framework as they establish transition planning obligations. While we are supportive of implementation of the ISSB disclosure standards in the UK, including with respect to transition planning, the Framework provides a significant amount of further detail. In line with, the TPT statements in the introduction to the Banks Sector Guidance, we are interpreting the Banks Sector Guidance as providing best practice, voluntary guidance to assist firms in developing their transition plans. Where, however, there is an intention to make any part of the Framework mandatory (including the Banks Sector Guidance) we think that it is imperative that there is further consultation given the developing nature of transition planning and the challenges that we flag in this response.

This is important to maximise international interoperability and to provide sufficient flexibility for companies to incorporate transition planning into their corporate strategy in a manner that is most relevant to their transition and is most useful for investors. As a separate matter, to aid accessibility, we would also encourage the TPT to make the Implementation Guidance available in a consolidated PDF format (rather than a web-based format) as is the case for the other core TPT materials.

### Overarching comments impacting the whole Banks Sector Guidance

#### **Support for sector-specific guidance**

We broadly support the strategic approach to transition planning and the guiding principles of ambition, action and accountability as set out in the Disclosure Framework and Implementation Guidance. We also broadly support the principle behind providing sector-specific guidance where such guidance allows for the specificities of, in this case, the banking sector.

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### ***Importance of consistency with TPT Disclosure Framework and the other sector-specific guidance***

As we commented in our response to the Disclosure Framework, while comparability is important from a user perspective, transition planning is still at an early stage of development, and the recommendations in the Bank Sector Guidance will need to retain (and not remove) the flexibility of the Disclosure Framework's recommendations so that banks can adapt their disclosure as transition planning evolves over time. For example, given the nascent stage of firms' approach to nature, firms will need to have the tools and capabilities to undertake assessments of nature-related impacts and interdependencies within the climate context, prior to being able to articulate their strategic ambitions in this area through disclosure.

The Banks Sector Guidance is described as being "complementary" to the Disclosure Framework (and by definition the Implementation Guidance) and so, as a general principle, it is important that the Banks Sector Guidance does not go beyond the scope of the Disclosure Framework (and the Implementation Guidance) to impose additional expectations on banks which are not clearly specific to the banking sector. For example, we note that disclosures specifically related to the just transition and to nature-related risks and opportunities are expected by the Banks Sector Guidance (as well as the Asset Managers Sector Guidance and Asset Owners Sector Guidance) whilst they are not expressly referenced in the Disclosure Framework, in spite of their relevance across all sectors. We question whether the sector specific guidance therefore lacks consistency with the Disclosure Framework on this point.

The Banks Sector Guidance notes "that Banks may have in-house asset management functions. In such instances, an entity is recommended to also use the TPT Asset Managers Guidance". It is essential that the three sets of financial services sector guidance are consistent so that one set of guidance can broadly be used across an organisation save for in relation to specific disclosures pertaining to the other function (for example, be it the Banks Sector Guidance used predominantly and supplemented by the Asset Managers Sector Guidance where necessary). It would be useful for the introductory wording to the relevant sector guidance to acknowledge that the three sets of sector guidance are designed to be consistent but, to the extent there are inconsistencies between the three sets, an entity should be permitted to choose the approach that they believe is most appropriate for their business model.

### ***Importance of consistency with ISSB reporting principles and IFRS accounting standards***

The Framework is designed to provide recommendations complementing disclosure requirements based on ISSB standards IFRS S1 and S2. Consistency across the Framework is essential for workable, comparable and proportionate disclosures that provide investors with decision-useful information. The definition of materiality, and the approach to determining what information is material to investors, is a key principle that should apply consistently across all sectors and jurisdictions.

We strongly support the work the TPT has done to align the sector-neutral framework with ISSB. There are, however, elements of the Framework that can be interpreted as going beyond the ISSB definition of materiality when recommending the disclosure of transition plans' impacts on stakeholders and society. These references do not align with the ISSB's financial materiality principle and pose challenges under the ISSB's standards.

The Banks Sector Guidance goes further, adding examples of how to fulfil this recommendation and introducing an expectation for banks to set out their contribution to an economy-wide (just) transition. The TPT also recommends that banks disclose "whether and how they identify, assess and take into account the impacts and dependencies of its transition plan, and pursue their objectives and priorities in a manner that captures opportunities and avoids adverse impacts for stakeholders and society". It should be clarified, in the Banks Sector Guidance that transition plan disclosures should only require banks to disclose information that is core to their transition, in accordance with ISSB materiality principles. To ensure interoperability with ISSB, we also recommend that the TPT makes disclosures on broader stakeholder impact, just transition, and nature/social risk disclosures that banks "may additionally

consider”, rather than “should consider”. This would also align more closely to the approach in the Implementation Guidance.

To address challenges with the application of broad terminology within novel transition plan disclosure, we recommend that the TPT reference well known IFRS/ISSB or other accounting literature in any instance where new terminology is introduced (e.g. banking activities listed in the scope of the Banks Sector Guidance), to help financial institutions clarify and comply with the disclosure requirements in a consistent manner. Such an approach aligns with the TPT’s overall objective to align TPT disclosure with ISSB S2 disclosure requirements. *Future role of the Framework in the development of legally binding standards and regulators’ expectations*

Given the TPT’s ambitions for the Framework to be a gold standard, the Framework is likely to have a significant impact on the content of future legally binding disclosure requirements as well as regulators’ expectations. It is therefore important for the TPT to take into account the challenges that banks might face in following the Banks Sector Guidance.

These challenges include:

- (i) that certain recommended disclosure relates to aspects of business plans that will contain proprietary/commercially sensitive information that could give away a competitive advantage. For example, disclosure of forward-looking projections (i.e. business model implications, medium- and long-term roadmaps, future financial impacts, sensitivity analysis), further product and service offerings as well as framing around industry engagement and collaboration. The result is that there will always be an inherent tension in banks trying to meet the gold-standard whilst balancing legal/regulatory risk or confidentiality obligations. Where banks choose to disclose, owing to these sensitivities, they may do so in a high-level way so as not to fall foul of legal/regulatory obligations or commercial sensitivities. Further, projections may, in any event, be speculative and lack certainty owing to their forward-looking nature and/or owing to the bank not having the skills or capabilities to provide such disclosure. This could ultimately prove counterproductive to broader efforts by governments and private sector actors to achieve net zero. Although there is some recognition of these challenges at page 6 of the Bank Sector Guidance (i.e. it states that the guidance is not designed to alter existing legal or regulatory requirements and that no disclosure of commercially sensitive information is required) we request TPT to remove those disclosures which are likely to consistently suffer from such sensitivities, and to revise page 6 further to more expressly acknowledge the above mentioned tensions.
- (ii) the volume of suggested disclosures that entities “should consider disclosing” and “may additionally consider” disclosing under the Banks Sector Guidance (in addition to the “may” disclosures under the Implementation Guidance). Whilst acknowledging that the introductory wording to the guidance states that these are complementary and intended to help preparers interpret the Disclosure Framework, banks will nonetheless need to carefully consider all of the layers of the guidance and what is or is not appropriate and possible in the context of their operations. This is made further challenging by the fact that, in some areas, the methodology for making a suggested disclosure does not exist or is at a nascent stage (for example, in relation to nature-related disclosures, given the current lack of availability of data, tools and methodologies). TPT could assist in meeting these challenges through:
  - carefully considering, the list of suggested disclosures to ensure that it is streamlined to only include core suggestions which will be of material use to transition plans; and

- acknowledging in the guidance that disclosure will not be possible where there is a lack of data, tools and methodologies and acknowledging that banks may use a phased approach if appropriate until there is sufficient availability.

As noted, the Framework may evolve into a mandatory standard or supervisory expectation and so it is important to us to have these challenges clearly acknowledged in the drafting at the outset.

### ***Recognition of group-level reporting vs. entity-level reporting***

We appreciate the TPT's recognition that global firms take a global approach to transition planning. An approach that could result in international banking groups needing to produce individual transition plans under different frameworks for each of their subsidiaries or for each jurisdiction in which they operate should be avoided.

Reiterating a comment made in response to the TPT Disclosure Framework, we note that the Banks Sector Guidance refers to the "entity" and indicates transition plan disclosure at the level of the legal entity. Global banks are typically organised functionally rather than geographically, and client relationships are almost always international rather than local. Furthermore, the strategy for transition targets is set at the group level. As such, the production of entity-level disclosure will be extremely burdensome given the data will not be available per legal entity or accurately attributable to a particular legal entity, and reporting may therefore result in less meaningful and less comparable output. This will particularly be the case where the UK bank is a subsidiary of an international banking group. Deriving meaningful UK-only disclosure will be extremely challenging in this case and could affect the broad attractiveness of the UK as a location to undertake international banking business.

The TPT should also consider the treatment of UK branches of overseas banks. Such branches will be unlikely to have their own UK transition plan strategy and in any event are subject to different (typically, fewer) UK legal and regulatory requirements compared to UK subsidiaries. The scope and impact of future legislation and regulation will be determined as the policy is developed. At that time, the position stated above should be noted that such branches do not set their own strategy but are subject to the governance of the legal entity.

In light of the comments above, it is important for the Banks Sector Guidance to acknowledge the typical structure of global banking groups and allow for recognition of group-wide reporting structures and reliance on group reporting.

### ***The importance of alignment of transition plan frameworks***

We welcome the work of the TPT in aligning disclosure requirements with international standards, building upon the relevant TCFD and ISSB standards. An internationally consistent approach must be taken to transition plan disclosure, for example in relation to concepts like materiality, including for financial institutions. Many financial institutions, including major UK institutions, have significant international businesses and if there is insufficient consistency and coordination of approaches there is a risk that financial institutions are subject to multiple, potentially conflicting or overlapping requirements in different jurisdictions with the same objective.

The Framework should also be sufficiently flexible to be able to evolve with developments in the UK. We know that that the UK's approach to ISSB endorsement is in train, and that FCA policy on the use of ISSB disclosure standards and on transition plans for listed companies is coming in 2024, and it is important that what the TPT delivers now is sufficiently flexible so as to be consistent with globally emerging standards. We consider that one way of achieving this flexibility would be to streamline the list of recommended disclosures in the Banks Sector Guidance (as we suggest above) to those that are material, as a more streamlined list would be less likely to conflict with emerging standards.

## **Scope of the Banks Sector Guidance**

The Banks Sector Guidance is described as being focused on retail and commercial banking activities, and notes that further work may be needed to consider the disclosures in the investment banking space. There are many recommendations, especially those around the education and support that should be provided to customers, that are not aimed at the investment banking market. However, we do not believe that additional, investment banking specific guidance is needed. We suggest instead that additional explanatory wording be incorporated into the Banks Sector Guidance confirming that further guidance is not desired at this stage and to clarify that suggested disclosures in the guidance are only appropriate where relevant to the bank's business model (current page 12 is not sufficiently clear in this regard which make a similar but different point in relation to cross-sector entities). Further, banks should be able to determine which of their core activities meet a materiality threshold in accordance with ISSB reporting principles, and which ones do not and therefore would not be meaningful to include in the transition plan.

Currently, both on- and off- balance sheet activities are included within scope of the Bank Sector Guidance. It would be helpful if TPT could:

- (i) clarify what “off-balance sheet activities” (and facilitated emissions) for banks are encompassed by reference to relevant internationally accepted accounting standards (i.e., IFRS) as “off-balance” could cover a very broad range of activities which vary in the role that these can play in transition;
- (ii) limit on-balance sheet activities recommended disclosure to longer term exposures and accordingly that assets held for short-term duration (such as less than one year) should be excluded. This is because, as in general, a bank's ability to influence a company is limited by the time with which it has a relationship with the company. This would also be consistent with the PCAF approach,<sup>1</sup> which excludes “assets held for short durations and designated as held for sale ... These assets may include, but not be limited to, trading account assets and debt securities carried at fair value”; and
- (iii) clarify that on- and off-balance sheet activities need only be disclosed against to the extent applicable to the bank's business model, material to contributing to transition, and where methodologies are available. We understand that the only off-balance sheet methodology currently available is PCAF (relating to primary issuance of capital markets instruments and loan syndication facilitated emissions). We note that the scope of the Asset Managers Guidance acknowledges limitations to methodologies.

We also note the use of undefined and non-exhaustive terminology e.g. “core banking activities”, “sales and trading”, “advisory services” and “catch all” style drafting. We appreciate why TPT has taken this approach to drafting as the guidance is designed to be flexible, to allow disclosure to evolve and to fit for different operations. Equally, however, owing to the expansive nature of the wording, banks will be challenged to think about the type of disclosure required for insignificant areas of its business (and this is made more difficult when coupled with the above made point regarding lack of accepted methodologies to do so). This will be disproportionately difficult for banks to meet, and it also presents unnecessary legal risk for the bank as they attempt to disclose whilst guarding against disclosure which could be fraught with inaccuracies (owing to the lack of industry standard). This may result in high-level disclosure which may ultimately be meaningless and hinder comparability in the market. Accordingly, for this further reason we urge TPT to consider limiting the scope to banking activities which the bank considers material by reference to the size of business, and subject to the availability of international methodologies.

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<sup>1</sup> PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition. <<https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>>.

### **Structure of the Banks Sector Guidance recommendations: “should” and “may”**

We note the two tier “should consider disclosing” and “may additionally consider disclosing” structure for providing interpretive sector specific guidance on the Disclosure Framework recommendations (and we note that this contrasts to the “may” approach taken in the Implementation Guidance). This arrangement has the effect of turning the first set of interpretive recommendations (where added) into strong expectations or quasi-obligations. Particularly in light of our comments above on the expected influence in the development of legally binding standards and regulatory expectations this Framework will have, we would encourage the use of wording to explain that the suggested disclosure is nonetheless only expected where appropriate and if material. Further, we would encourage TPT to clarify that the Banks Sector Guidance does not create general “comply or explain” expectations except as otherwise expressly detailed in a particular section (e.g. we note that certain elements of “Metrics & Targets” ask entities to consider giving reasons behind exclusions).

### **Comments on specific elements of the Banks Sector Guidance**

#### **Foundation**

The Foundation sets out the principal recommendation to set and disclose a Strategic Ambition for responding and contributing to the transition to net zero.

The way in which this sub-element is handled in the Banks Sector Guidance is indicative of the relationship between the Disclosure Framework, the Implementation Guidance and the Banks Sector Guidance throughout, and so comments given here can be read as comments to the overall approach to the Banks Sector Guidance.

Although the Banks Sector Guidance is intended to explain how the sub-element, in this case the articulation of the Strategic Ambition, could be applied in the bank sector, there are instances where it appears to go beyond the scope of the original Disclosure Framework recommendation. We reiterate the importance of applying the ISSB reporting principles consistently in this guidance.

The Strategic Ambition disclosure and related Implementation Guidance is intended to show how an entity is reducing emissions in its “operations and value chain”. The Banks Sector Guidance, however, expands this to include “financed and facilitated emissions associated with its on- and off- balance sheet activities”. Whilst arguably consistent with the concept of a “value chain” this significantly broadens the scope of the disclosure recommendation rather than providing guidance on the actual disclosure recommendation. In this instance, we think it would be appropriate to clarify (in line with our suggestions above) that disclosure is only expected where material to a bank’s business model and where methodologies are available (e.g. PCAF<sup>2</sup> in relation to capital markets facilitated emissions) and those are subject to a phase-in approach where appropriate given their emerging nature.

Similarly expansive, disclosure of “any potential trade-offs, synergies or co-benefits” of the Strategic Ambition recommended by DF 1.1(d) (and the related Implementation Guidance) is explained/interpreted in the Banks Sector Guidance as including disclosure of how certain implementation and engagement strategies have been prioritised to leverage those potential opportunities. This goes beyond the disclosure of the opportunity and asks the bank to disclose the commercial decisions that have been made to decide how to maximise the opportunity. This gets into potentially commercially sensitive decisions and processes of the bank, as well as decisions relating to risk management and governance. We consider this to be beyond the remit set out in the Disclosure Framework and Implementation Guidance.

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<sup>2</sup> PCAF (2023). The Global GHG Accounting and Reporting Standard for Capital Markets Part B: Facilitated Emissions. <<https://carbonaccountingfinancials.com/files/PCAF-PartB-Facilitated-Emissions-Standard-Dec2023.pdf>>.



Additionally, we wish to highlight the TPT's expanded focus on impacts and dependencies of a firm's transition plan under the Banks Sector Guidance, such as the expanded references to nature and social risks and opportunities on pages 15-16 and 17-18 respectively, and the related requirements listed under sub-element 1.1. Such disclosures can be interpreted as going beyond the ISSB definition of materiality. The TPT should ensure that the ISSB approach to financial materiality is applied consistently across the recommendations, to ensure consistency and so that the information is decision-useful to investors. This should be made explicit in the Banks Sector Guidance.

### ***Implementation Strategy***

In disclosing how decisions relating to a bank's business operations further its Strategic Ambition, the Banks Sector Guidance provides a long list of factors a bank "may" additionally consider using in making its disclosure (sub element 2.1). Many of these factors are indicators of the types of commercial, risk and governance processes that the TPT seems to expect a bank to have in place in relation to their business operations, rather than explaining the nature, content or format of any business operation-related disclosure itself.

In relation to risk management processes, there is a recurrent theme of moving from a disclosure framework to a risk management framework throughout the Banks Sector Guidance. The sector context provided by the TPT (on page 11) appears to reinforce this framing of transition plans as a tool to manage climate risks, with explicit references to prudential supervision.

Whilst helpful in suggesting areas of good practice, the guidance should be focused on disclosures only and items of risk management practices should be removed. The preamble to each set of interpretive recommendations should make clear the purpose of the Banks Sector Guidance – to improve disclosure and not purport to mandate risk management changes.

The TPT framework and guidance is not intended to be an authoritative tool to support the management or prudential supervision of climate and transition risks. Our view is that the TPT should draw a clear distinction between transition plan disclosures and climate risk management tools and remove the references to climate risk management in the Banks Sector Guidance. Transition planning is a business exercise to operationalise a firm's strategic targets and commitments to achieve its longer-term low carbon goals and interim targets. It has different objectives, time horizons, metrics, and scenarios than climate-related financial risk management. Transition planning can help financial institutions identify and understand strategic risks relevant for a firm's business model, but this is distinct from other types of core climate-related risk management activities, and these two separate objectives should not be conflated. The Bank Sector Guidance should not be designed as a supervisory tool to support the management or prudential supervision of climate and transition risks, which must be based on sound evidence gathered by the relevant authorities<sup>3</sup>, and these two separate objectives should not be conflated.

The comments raised in relation to sub-element 2.1 on Business Operations equally apply in respect of the remainder of the Implementation Strategy section – that the Banks Sector Guidance makes additions to the Disclosure Framework which go beyond the remit of that framework and which are more about risk management than disclosure. For example, the Banks Sector Guidance introduces problematic references to climate risk management practices in Implementation Strategy disclosures, including in relation to the overall risk profile for the bank, how the ICAAP process supports the Strategic Ambition<sup>4</sup>, or with a forward-looking assessment of possible credit losses. Such references should be removed.

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<sup>3</sup> The latest Bank of England CBES exercise did not highlight material transition-related risks, and the BoE did not find reasons to amend supervisory expectations (following its review of PRA SS3/19), instead recommending that firms focus on the implementation of the expectations set out by the PRA.

<sup>4</sup> ICAAPs are private documents that are shared only with the PRA, who set the expectations for what firms should include in their ICAAPs and use these plans to set capital requirements. As such, only the PRA (or the equivalent competent authority in other jurisdictions) has the remit to opine on what firms should include in the ICAAPs, and, even if the PRA were so inclined to require firms to have regard to climate risk as a standalone risk type, whatever firms were to include would not be shared with the firm's investors and other stakeholders, who are the target audience of transition plans.

Separately, the Banks Sector Guidance expects disclosures to be made about how the bank plans to use its products and services to achieve its Strategic Ambition. Some of the processes that are currently expected to be disclosed would involve information on decision-making which is commercially sensitive, for example how climate risk is priced, and how climate-related opportunities are captured and factored into financial planning. The Banks Sector Guidance also suggests explaining how the bank is responding to clients' climate-related preferences to create or change products, plan to offer new products, what mitigation/assessment exercises are being undertaken to measure the effectiveness of the product strategies on the Strategic Ambitions, and impact assessment information about how changes to products and services would affect stakeholders and society. Not only is this very prescriptive about what governance is expected around product/service development, it also sets expectations for there to be very lengthy and potentially confidential, non-public and/or commercially sensitive disclosure. Such disclosure could also act as a barrier to experimentation and innovation where a competitive advantage is expected to be disclosed. In relation to the sensitivities around such recommended disclosures, we refer to our suggestions to TPT under the section of this response entitled "*Future role of the Framework in the development of legally binding standards and regulators' expectations*" at sub-paragraph (i). Separately, the Banks Sector Guidance also includes product disclosure expectations for nature-linked products. We would be grateful if TPT could provide further definition around what these are (for example, if they are only encompass products linked to climate outcomes).

### **Engagement strategy**

When responding to the consultation on the Disclosure Framework, we explained our view that disclosures on engagement strategy should not be made mandatory on the basis that disclosures on engagement strategy are not a necessary element of transition plans and, in turn, of the TPT framework. We continue to be of the view that such disclosure may hinder firms' efforts to conduct engagement in a meaningful way, as engagement itself is highly tailored to the unique risk factors of each counterparty, including business model, location, environmental footprint, and governance track record. Engagement may also be confidential in nature owing to it being commercially sensitive (e.g. we would think it unlikely that information about exit conditions of an investment could be disclosed) and/or owing to bank's common law duty of confidentiality to its clients. It would thus be challenging to ensure comparability among disclosures of companies' engagement strategies, nor would it be beneficial to encourage standardisation with the exercise of engagement.

As such, we support the acknowledgement in the Banks Sector Guidance that engagement strategies are all different depending on the business model etc, and the reference to an "overview" disclosure. Whilst we support the majority of the interpretive recommendations being cast as "may" recommendations rather than occupying the first tier "should disclose" we think that in light of our preceding point regarding confidentiality and that a number of the "should disclose" recommendations relate to clients, TPT should go further and cast all the 3.1 recommendations under the second tier "may". This would also better align to the Implementation Guidance. We also encourage TPT to include further wording that acknowledges the tensions inherent in these disclosure recommendations, as noted above, by allowing banks to make their disclosure high level and principles-based.

The Disclosure Framework recommends that entities disclose their escalation processes or criteria in place to manage cases where engagement activities do not yield desired changes. This opens banks up to legal risk and potential breaches of client confidentiality and constrains business practices. The Banks Sector Guidance goes further by explicitly suggesting that banks disclose highly sensitive information as regards any exit conditions defined as part of their escalation processes to manage cases where engagement activities do not yield desired changes. We ask the TPT to remove these references to escalation processes and exit conditions from sub-element 3.1.



A number of the recommendations are cast as actions (rather than explanative disclosures) and “hows” e.g. “an entity may consider how it will engage with its clients...; how it supports clients...” This is another example of the Banks Sector Guidance going beyond the Disclosure Framework and Implementation Guidance.

In the sub-element expanding on “Engagement with government, public sector and civil society”, the Banks Sector Guidance recommends that banks consider disclosing “information on current and planned engagement activities with policymakers and regulators to accelerate the transition towards a low-GHG emissions climate-resilient economy”. We note that this element is reflected in the Implementation Guidance applicable to all sectors. It is therefore not clear why it needs to be referred to again in this sector specific guidance, however, we think that the Bank Sector Guidance could note that such disclosure is not required for the banking sector where it would create legal or operational risk or require the disclosure of information that could be counterproductive to industry engagement and its effectiveness. We also request that the expectation be narrowed to show that the banks’ engagement in this space is to further fulfilment of their own Strategic Ambition (which in turn, collectively contributes to the wider, global transition).

### ***Metrics and targets: general comments***

We have a number of comments that apply to 4.1 to 4.3 of the Banks Sector Guidance.

The first is that we support the existing wording that disclosures should only apply in so far as the entity actually uses such metric or target but we would further be supportive of reference being made to material targets. We note that this is acknowledged in the existing wording for each Disclosure Framework disclosure sub-element. We reiterate a point made in our response to the Disclosure Framework consultation that the application of these sub-elements should not be expanded in the Banks Sector Guidance as they are already very broad in scope and granular, and will result in a disproportionate volume of work and length of disclosure (even for those banks that use targets).

The second point is that we would encourage the TPT to acknowledge in the text that qualitative disclosures may be appropriate (depending for example on proportionality considerations, commercial or client confidentiality sensitivities or other laws and regulatory obligations).

The third point of general application is that a number of sections set out “comply or explain” expectations. For example, entities are expected to give the “rationale for any exclusions and the extent to which it is taking, or plans to take, steps to increase the scope of coverage”; or “having a clearly defined scope and reasons behind any exclusions”. We think that *all* such references in section 4 should be limited to “material exclusions”. Without this amendment the level of disclosure expected would be disproportionate, with banks inferring that they are expected to explain the irrelevance of every potential category that is excluded in order to follow the guidance.

### ***Metrics and targets: governance, business and operational metrics and targets***

Acknowledging that DF 4.1 only has application in relation to the targets that the entity in fact uses, we would echo the comments made above in relation to “*Engagement strategy*” (and in our Disclosure Framework consultation response) that it may be difficult, if not impossible, to generate meaningful disclosure/metrics in relation to 4.1 (in particular, for example, engagement taking many different forms). Further, owing to commercial sensitivities, qualitative rather than quantitative disclosure may be desirable. We would therefore be supportive of casting all of the recommendations made under 4.1 of the Banks Sector Guidance as ones banks “may” rather than “should consider”, to acknowledge the additional challenges in respect of this area of disclosure and, in keeping with our earlier comments, for TPT to acknowledge that qualitative disclosures may be appropriate. Our other general comments above also apply here.

### ***Metrics and targets: financial metrics and targets***

We note that the second bullet point in this section includes that firms should consider disclosing “how its metrics and targets support an economy-wide transition”. We think that this imposes a disproportionate expectation on banks to explain how they are effecting a wider macro transition; and that disclosure expectations should be limited to the banks’ own Strategic Ambition.

Our other general comments above also apply here (including on the scope of on- and off- balance sheet activities).

### ***Metrics and targets: GHG emissions metrics and targets***

In keeping with the above comments regarding both commercial sensitivities and the granular nature of the disclosure and resulting volume of work required for banks to follow this framework, we would encourage the TPT to reconsider whether disclosure expectations could instead be focused at a portfolio or sector rather than client level as currently drafted. This would lessen the burden of gathering and cutting data in several ways as well assisting in anonymity, which is particularly important given UK banks owe their clients a common law duty of confidentiality.

Our other general comments above apply.

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## **About AFME**

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.<sup>5</sup>

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<sup>5</sup> AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76.