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Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, NW
Washington, DC 20581

Submitted via CFTC Comments Portal: https://comments.cftc.gov

**Re: Request for Information on Climate-Related Financial Risk**

Dear Mr. Kirkpatrick:

Bloomberg L.P.[1] ("Bloomberg") respectfully submits this letter in response to the Request for Information on Climate-Related Financial Risk[2] ("RFI") issued by the Commodity Futures Trading Commission ("CFTC" or the "Commission") to better inform its understanding and oversight of climate-related financial risk as pertinent to the derivatives markets and underlying commodities markets.

We appreciate the Commission's initiative to understand and mitigate the effects of climate-related financial risks that impact the derivatives markets and the underlying commodities markets. Climate-related financial disclosures would bring greater transparency into climate-related risks, and we firmly believe that comparability and consistency are key to providing meaningful and useful information. As detailed in this letter, we recommend that the Commission consider the disclosure framework developed by the Taskforce on Climate-Related Financial Disclosures ("TCFD"), as well as offer some insights on voluntary carbon markets.

## TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES FRAMEWORK

***QUESTION 14.*** *A goal of climate-related financial disclosure is to offer meaningful information about climate-related financial risks, and to foster increased transparency into those risks. In connection with any assessment of whether updated requirements are needed, what specific*

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[1] Bloomberg L.P. is a global leader in business and financial information, delivering trusted data, news, and insights that bring transparency, efficiency, and fairness to the markets. The company helps connect influential communities across the global financial ecosystem via reliable technology solutions that enable our customers to make more informed decisions and foster better collaboration.

[2] CFTC's Request for Information on Climate-Related Financial Risk (June 8, 2022), *available at* https://www.cftc.gov/sites/default/files/2022/06/2022-12302a.pdf ("RFI").

*disclosures, building on the Task Force on Climate-Related Financial Disclosures' (''TCFD'') four core elements of governance, strategy, risk management, and metrics and targets, would be most helpful for the Commission to consider?*

***QUESTION 17.*** *FSOC Report Recommendation 3.4 suggests that FSOC members issuing requirements for climate-related disclosures consider whether such disclosures should include GHG emissions, as appropriate and practicable, to help determine exposure to material climate-related financial risks. Should registered entities and registrants be required to disclose information relating to GHG emissions?*

***QUSETION 4.*** *Are there any climate forecasts, scenarios, or other data tools that would be useful to the Commission, registered entities, and/or registrants to better understand the exposure of any registered entities or registrants to climate-related financial risk and how those risks translate to economic and financial impacts?*

We welcome the Commission's consideration of building disclosure requirements on the framework developed by the TCFD.[3] The TCFD is an industry-led task force created by the Financial Stability Board that offers a globally accepted framework on which to structure and base disclosure standards and reporting requirements. TCFD recommendations can play a role in driving corporate actions toward a low- and zero-carbon economy. While the TCFD recommendations and related guidance do not explicitly address derivatives, they are designed to be adoptable by all types of companies across sectors and jurisdictions and are flexible enough to accommodate evolving practices.

As of the date of this letter, TCFD has over 3,941 supporters globally – including 1,484 financial institutions – responsible for assets of approximately $219.4 trillion. TCFD supporters span 96 countries and jurisdictions and nearly all sectors of the economy, with a combined market capitalization of $22.9 trillion.

TCFD recommendations are built upon the four core pillars: (1) governance (i.e., board and management roles in assessing and managing climate-related risks); (2) strategy (i.e., climate risks and opportunities that affect a filer's business strategy and operations, and how resilient a filing entity's strategy may be to such risks and opportunities in the future); (3) risk management (i.e., how climate-related risk is incorporated into a filer's overall approach to risk management); and (4) metrics and targets (i.e., what metrics and targets a filer uses to assess climate-related risks and opportunities, and what its GHG emissions are). The disclosure framework and recommended disclosures developed by the TCFD can provide a starting point and foundation for the Commission in requiring climate-related disclosures to gather and provide comparable,

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[3] The TCFD is chaired by Michael R. Bloomberg, founder of Bloomberg L.P. TCFD members represent large banks, insurance companies, asset managers, pension funds, large non-financial companies, accounting and consulting firms, and credit rating agencies. The TCFD has developed recommendations for more effective climate-related financial disclosures to promote more informed investment, lending, and insurance underwriting decisions. For more information on the TCFD, please see https://www.fsb-tcfd.org.

consistent, and decision useful information related to climate. In this regard, we support initiatives by the G20, the Financial Stability Board, and others to develop a baseline of global sustainability reporting standards that would build on the work of the TCFD. To date, five jurisdictions have adopted final disclosure requirements based on the TCFD recommendations. Others have issued proposed disclosure requirements based on the TCFD recommendations, including the U.S. Securities and Exchange Commission ("SEC").[4] In addition, the International Sustainability Standards Board ("ISSB") has used the TCFD framework as the foundation for its reporting standards on climate.[5]

Should the CFTC contemplate requiring climate-related disclosures, we believe that such disclosures should provide decision-useful metrics and information for investors on both current and forward-looking potential climate-related risks and opportunities faced by filing entities. This information, at a minimum, includes metrics on GHG emissions, actual and projected financial impacts, and assessments of strategy resilience using scenario analysis. Regarding GHG emissions, we note that Scope 1 and Scope 2 emissions (and increasingly Scope 3 emissions), are critical components of any climate-related financial disclosure scheme, since these emissions are the major drivers of temperature increases.[6] Therefore, understanding the

[4] The Enhancement and Standardization of Climate-Related Disclosures for Investors, SEC Exch. Act Release Nos. 33-11042; 34-94478 (Mar. 21, 2022) ("SEC Climate-Related Disclosure Proposal"), *available at* https://www.sec.gov/rules/proposed/2022/33-11042.pdf.

[5] ISSB Exposure Draft IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information (Mar. 2022), *available at* https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf; ISSB Exposure Draft IFRS S2 Climate-related Disclosures (Mar. 2022), *available at* https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf. ISSB was established at COP26 to develop a comprehensive global baseline of sustainability disclosures for the capital markets. As part of an international effort to avoid fragmentation and deliver more consistent, comparable, and reliable climate-related information to investors, the International Financial Reporting Standards Foundation ("IFRS Foundation") announced the ISSB in November 2021 to develop climate-specific disclosure standards based on the recommendations of the TCFD. The ISSB will develop standards that provide a comprehensive global baseline of sustainability disclosures so that they can be mandated and combined with jurisdiction-specific requirements or requirements aimed at meeting the information needs of broader stakeholder groups beyond investors. Consistent with the approach taken for the Accounting Standards of the International Accounting Standards Board ("IASB"), it is for jurisdictional authorities to decide whether to mandate use of the ISSB's standards. *See* IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements (Nov. 3, 2021), *available at* https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/.

[6] Scope 1 refers to all direct GHG emissions from sources that are owned or controlled by an organization; Scope 2 refers to energy consumption-related indirect GHG emissions such as from the purchased electricity consumption of the organization; and Scope 3 refers to emissions that are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Some examples of Scope 3 activities are extraction and production of purchased materials, transportation of purchased fuels, and use of sold products and services. For financial firms, Scope 3 emissions include financed emissions and disclosing such information is important for understanding a financial firm's climate-related risks and opportunities. The Greenhouse Gas Protocol's "A Corporate Accounting and Reporting Standard" (Mar. 2004), *available at* https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf.

emissions contributions of a filing entity is an important factor for understanding how financially vulnerable it may be to shifts in regulation, technology, and markets as the world adjusts to a lower-carbon economy.

We also believe it is important that corporate disclosures include information on how climate-related risks and opportunities may affect filing entities' income statements, cash flow statements, and/or balance sheets. This information is critical for investors, lenders, and underwriters in assessing a filer's risk profile, estimating its risk-adjusted returns, and completing other relevant financial analyses. Examples of potential climate-related financial impacts include: changes in operating costs due to climate-related commodity price changes, disruptions to supply chains and business operations, operational restructurings, or other factors; changes in asset values as a result of obsolete inventories, asset impairments, or a change in the expected useful life of assets; a higher frequency and magnitude of insured events (e.g., property damage, weather-driven business interruptions, etc.) that affect the measurement and reporting of insurance contract liabilities; and more.[7]

Further, we believe that scenario analysis is an important tool for assessing the resiliency of a filing entity's strategy under a range of plausible climate-related scenarios. It allows filing entities to test their business strategy against a spectrum of "what-if" future climate change risks and develop a more informed and anchored view of implications for their enterprise value and value chains. Disclosure of scenarios used by a filer can also inform investors about the reliability, reasonableness, and resiliency of its plans to address climate-related risks and opportunities. To the extent that the markets and regulators can develop a set of common reference scenarios, scenario-related information will be more comparable and useful across the board. Additionally, common reference scenarios would be most effective if they are adopted on a global scale. This would allow for comparability across borders and limit the confusion and complexity that comes with comparing otherwise similar entities that use different scenario methodologies.

In considering the types of metrics to incorporate into a climate-related disclosure framework, the work of leading organizations in this space should be considered. The Sustainability Accounting Standards Board ("SASB"), Climate Disclosure Standards Board ("CDSB"), CDP (formerly the Carbon Disclosure Project), Global Reporting Initiative, and International Integrated Reporting Council ("IIRC") formed an alliance to work toward a prototype climate-related financial disclosure standard and a comprehensive corporate system to inform and assist the work of the International Organization of Securities Commission and International Financial Reporting Standards ("IOSCO") on this topic.[8] Their report from December 2020, "Reporting on

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[7] For a list of example climate-related impacts on financial statements, please see the IFRS's Effects of Climate-Related Matters on Financial Statements (November 2020), *available at* https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf.

[8] SASB, CDSB, and IIRC have become integrated into the ISSB as of August 2022.

Enterprise Value – Illustrated with a Prototype Climate-Related Financial Disclosure Standard," provides a helpful guide on developing climate-related disclosure metrics.[9]

## FORMAT OF THE DISCLOSURES

***QUESTION 16.*** *Are there any standardized data formats, such as structured data, that the Commission should consider for public climate-related data disclosures? Would the use of complementary protocols, where applicable, be helpful for comparability across other regulatory agencies?*

We believe that disclosures related to climate should be made in a structured, machine-readable data language. Disclosures need to be digital, contain machine-readable information that is both common and comparable. This will improve the quantity and value of quantitative information which is key in assessing companies' considerations of climate risks. It would be optimal for disclosures to be filed in XBRL and in a standardized, tabular format. XBRL defines a set of rules for encoding documents in a format that is both human- and machine-readable, increasing the accuracy of the extracted data. To improve the quality and accessibility of data, using closed questions/fields could achieve even greater standardization, potentially even with "select from" or multi-select style options within these fields.

We note that, in its proposal to enhance and standardize climate-related disclosures for public companies, the SEC has proposed to require disclosures to be made in structured, machine-readable data language.[10] It would make practical sense for the CFTC to require disclosures to be made in a similar structure data format to allow comparability and consistency of information.

## VOLUNTARY CARBON MARKETS

***QUESTION 22.*** *Are there ways in which the Commission could enhance the integrity of voluntary carbon markets and foster transparency, fairness, and liquidity in those markets?*

We believe the Commission should enhance the integrity of the voluntary carbon markets ("VCM") by following the "Draft Recommendations for the Development of the Net-Zero Data Public Utility" released by the Climate Data Steering Committee.[11] These recommendations

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[9] Reporting on Enterprise Value Illustrated with a Prototype Climate-Related Financial Disclosure Standard (Dec. 2020), *available at* https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf.

[10] *See* SEC's Climate-Related Disclosure Proposal at p. 283.

[11] Climate Data Steering Committee's Draft Recommendations for the Development of the Net-Zero Data Public Utility (Sept. 2022) ("Draft Recommendations"), *available at* https://assets.bbhub.io/company/sites/63/2022/09/Development-of-the-Net-Zero-Data-Public-Utility-September-2022.pdf. The Climate Data Steering Committee was formed by French President Emanuel Macron, following the announcement of a One Planet Data Initiative, and by UN Special Envoy for Climate Ambition and Solutions Michael R. Bloomberg, who is also the founder of Bloomberg L.P. The Committee, chaired by Mary Schapiro,

advise on the creation of a utility that collects, among other inputs, granular carbon credit data at the entity level, inclusive of fields for quantity, credit type (avoidance vs. removal offset), quality, location, and third-party verification if applicable.[12] The Commission could help foster market transparency by requiring the same level of disclosure.

Additionally, the Commission could enhance liquidity in the VCM by supporting the development of standards for carbon spot and futures contracts and an active secondary market. On these topics, the Commission should consider adopting the recommendations from the Taskforce on Scaling Voluntary Carbon Markets, a private sector-led initiative working to scale an effective and efficient VCM to help meet the goals of the Paris Agreement.[13]

***QUESTION 23.*** *Are there aspects of the voluntary carbon markets that are susceptible to fraud and manipulation and/or merit enhanced Commission oversight?*

Currently, the VCM suffers from a lack of transparency into the methodology used to determine an offset's price. For example, carbon storage accounting methodology is a key input for pricing but varies across registries and verifiers. We believe the Commission could help investors understand the product they are purchasing in the VCM by supporting additional disclosure regarding how storage permanence and pricing in general are calculated.

***QUESTION 24.*** *Should the Commission consider creating some form of registration framework for any market participants within the voluntary carbon markets to enhance the integrity of the voluntary carbon markets? If so, what would a registration framework entail?*

The Commission should explore ways to create a standardized registration framework for third-party verifiers and independent registries operating in the VCM. This framework should include a breakdown of the standards used to evaluate potential offset projects along with any certifications or approvals obtained on these standards. Additionally, the framework should include a detailed account of a registry's project failure detection process. We believe this will help investors more easily compare credit quality across the market and promote the integrity of the derivatives market.

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brings together individuals from international organizations, regulators, global standard setters, policymakers, and data service providers.

[12] Draft Recommendations at pp. 10, 19.

[13] https://www.iif.com/tsvcm

**CONCLUSION**

We appreciate your consideration of our letter. Reliable climate-related information is critical to understanding climate-related risks and opportunities in the financial markets and we hope that the Commission will find our letter helpful as it continues to assess and determine ways to safeguard the financial stability in the derivatives market from threats posed by climate change. We would be pleased to discuss any questions that you may have with respect to this letter.

Thank you.

Very truly yours,

Gregory Babyak
Global Head of Regulatory Affairs, Bloomberg L.P.