30 April 2024

Mr. Sunil T. S. Nair, Chief General Manager
Reserve Bank of India
Department of Regulation
Central Office Building
Shahid Bhagat Singh Road
Mumbai 400 001
Maharashtra, India

By online submission to RBI

Dear Mr. Nair,

Re: Draft Disclosure framework on Climate-related Financial Risks, 2024

We welcome the opportunity to provide our comments on this disclosure framework.

The Asian Corporate Governance Association (ACGA) is an independent, not-for-profit association chartered under the laws of Hong Kong. ACGA is dedicated to assisting companies and markets across Asia in their efforts to improve corporate governance practices. ACGA's operations are supported by a membership base of institutional investors, such as public pension funds and fund managers, as well as listed Asian companies, international accounting firms, banks, and insurers. We now have over 100 organisations as members, two-thirds of which are institutional investors with more than US$40 trillion in assets under management globally. They are also significant investors in India.

Measured Approach

We appreciate the measured approach RBI has taken to assess and prepare India's financial sector to address climate risk and sustainable finance, starting with the January 2022 survey undertaken by the Sustainable Finance Group in the Department of Regulation. The July 2022 Discussion Paper on Climate Risk and Sustainable Finance that followed recommended the usage of the Task Force on Climate-related Financial Disclosures (TCFD) framework for disclosing how they incorporate climate risk into their governance structure, risk management, strategy and metrics and targets.

Draft Disclosure Framework

The Draft Disclosure Framework on Climate-related Financial Risk, 2024, as one the first regulatory guidelines to be issued on climate risk, comes at the right time. The framework, following IFRS S2 standards, lays a strong foundation for the financial sector to have uniform disclosure of climate-related information.

Specific Concerns

However, while we agree with the broad outline of the disclosure framework, we have three main concerns:

- Timelines are too generous.
- Disclosures should not be separated into basic and enhanced, creating ambiguity with the IFRS S2 framework.

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- Lack of specific alignment with ISSB standards.

We believe the regulator should exercise more stringent measures in these areas, specially in relation to the larger listed and unlisted financial institutions, many of which are lagging most of their global peers in terms of measuring and disclosing financed emissions. Transition goals set by the Indian government will be difficult to achieve until and unless the financial sector becomes more proactive in addressing climate risk.

Relaxed timeline

The timelines proposed for disclosure is a matter of concern for two specific reasons. Firstly, the FY2027-28 window presented for the disclosure of metrics and targets are too lax. India is heavily dependent on fossil-based fuels, and as the most populated country in the world, its energy needs as well as its greenhouse gas emissions are on the rise. In order for a meaningful and timely green transition to occur, the banking and financial sector needs to do its part and guide the shift to renewable sources of energy. To achieve this, financial institutions must measure, assess, and set targets for their financed emissions at the earliest. And while it is a road riddled with complexities, it is important to remember the old adage 'What gets measured gets managed'. Publicly disseminating information on metrics and targets will create comparability and foster an environment of competitive behaviour that helps stakeholders and creates a trickle-down effect in the entire ecosystem. In addition, the enhanced transparency will compel boards to be more mindful of their role and have greater accountability and oversight on climate-related initiatives.

Globally a number of jurisdictions – the European Union, New Zealand and the UK – already mandate banks disclose their financed emissions. Given India's growing importance in the global economy, Indian financial companies need to catch up. We understand and acknowledge some banks will face difficulties estimating Scope 3 emissions based on international standards. To address this, RBI can provide a glide path for banks to initially disclose the financed emissions of their priority sectors attributed to the biggest climate change risks in the Indian context by FY2025-26. This should not only be for GHG emissions but also for physical climate-related risk. The rest of the sectors in their portfolios can be covered by FY2027-28. This is the approach taken by banks in other jurisdictions.

Secondly, the FY 2025-26 disclosure timeline on the governance, risk management, and strategy pillars and the FY 2027-28 timeline for Scope 1 and 2 emissions is not aligned with institutional expectations. RBI provided the sector two years to set up governance structures and processes, and most companies (and specifically the SCBs, AIFIs, Top and Upper layer NBFCs) should already be in a position to comply with these requirements by FY2024-25.

Scope of disclosure

Our other major concern with the framework is how disclosure requirements are divided into baseline and enhanced sections, which seemingly provides for a two-tier system. This might create ambiguity in the market. More markedly, it takes the framework out of alignment with IFRS S2, which runs contrary to RBI's stance on the importance of "consistent and comparable" disclosure as stated in its 2022 discussion paper.

Given that "enhanced disclosure" specifications in the current draft are material and essential, we suggest RBI list all disclosure requirements – whether baseline or enhanced – as mandatory, in

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alignment with IFRS S2. If any entity is unable to provide the information, they must explain their reasons in the annual report, along with a timeline on when the information is expected to be made available.

Lack of alignment with IFRS standards

Our investor members require information on the full spectrum of material sustainability issues facing companies in order to make decisions in the best interest of their clients and stakeholders. But for effective analysis and use of this information, it is important that local jurisdictional disclosure standards are consistent and comparable – even if they go above and beyond the global baseline to factor in the specific market nuances. This is why we recommend all regulators to adopt the ISSB standards, IFRS S1 and S2, into their mandated frameworks to create reliable, uniform and standardized corporate climate and sustainability reporting across the world.

In this case, while we acknowledge that RBI has referenced the IFRS standards in its framework, we find that there is no explicit support for its full adoption. We fear that this new directive may therefore end up creating a divergent reporting framework and make it difficult for market participants, particularly global investors, to accurately interpret the data.

Enhanced disclosure

Companies need to also provide context to their data – they must disclose how environmental and social factors are being used to inform and prioritise their actions/lending decisions, not only for new clients but also for their existing portfolio clients. This will allow stakeholders to understand how financial companies engage with their clients to support the transition to a low-carbon economy.

Just Transition is a movement that has taken hold globally and given India's population, societal needs and environmental issues, stakeholders are interested in how the financial sector is addressing the net zero journey. In December 2023, the International Labour Organization and the United Nations Environment Programme Finance initiative published the report *Just Transition Finance: Pathways for Banking and Insurance*[1], summarising the social and economic impacts of transitioning to a carbon neutral economy. The report, backed by more than 40 banks, insurance firms and other stakeholders, explored the ways and means some of these institutions were employing to "integrate just transition principles into financial products and operations". We feel RBI must look into this aspect and ask the banking sector to provide information on how it is contributing to India's broader environmental and social goals/agendas.

Investor concerns

Many of our institutional investor members, who are invested in the finance sector, have been engaging with their investee companies for some time on addressing climate risk. They believe, that a stronger regulatory push is needed before financial institutions take more concrete steps to address the risks arising from climate change. Which is why they, while appreciative of RBI's efforts to improve sustainability transparency within India's banking and financial system, would like to see these concerns addressed in the disclosure framework.

Thank you for your time and we would be pleased to answer any questions that you may have.

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[1] Just Transition Finance: Pathways for Banking and Insurance

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Yours truly,

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