Institute and Faculty of Actuaries

Task Force on Climate-Related Financial Disclosures Phase 1 Report Consultation

1. Which types of non-financial firms should any disclosure recommendations cover? List in order of importance.

Energy (equipment, services, oil, gas etc.)	**Yes**
Utilities (electric, gas, renewables, water)	**Yes**
Materials (chemicals, construction, metals & mining, paper & forest, etc.)	**Yes**
Industrials (capital goods, commercial services, transport)	**Yes**
Consumer Staples (food, beverage, household etc.)	**Yes**
Consumer Discretionary (auto, durables, retailing, etc.)	**Yes**
Health Care (equipment, services, pharma, biotech, etc.)	**Yes**
Information Technology (semiconductors, software, hardware, etc.)	**Yes**
Telecommunications (diversified, wireless, etc.)	**Yes**
Please list any other recommendations Recommendations will need to be co-ordinated with any existing disclosure requirements	

2. Which types of financial firms should any disclosure recommendations cover? Check all that apply.

Diversified Financials (asset management, investment banking/broker-dealer, consumer)	**Yes**
Banks (diversified, thrifts, mortgage, etc.)	**Yes**
Insurance (brokers, multi-line, property, reinsurance, etc.)	**Yes**
Real Estate (REITS, management and development)	**Yes**
Credit Rating Agencies	**Yes**
Investment Consultants	**Yes**
Pension Funds/Schemes	**Yes**
Other We would suggest including the term asset owners which covers a range of long term investors (e.g. pension funds, sovereign wealth funds). These firms are an important element of the investment supply chain as they tend to focus on strategy and higher-level decisions. The distinction between asset owners and asset managers is also important, given the very different roles they have (though some organisations combine the two functions). The recommendations should reflect the need for disclosure across two levels for organisations concerned with financial assets: 1) business activities; and 2) where relevant, at an aggregate level for the funds it is managing or stewarding on behalf of others.	

3. Which users in the financial sector should be considered as the target audience?

Investors (including insurance, asset managers, funds, pensions, etc.)	**Yes**
Banks (diversified, commercial, project finance)	**Yes**
Broker-Dealers and Investment Banks	**Yes**
Credit Rating Agencies	**Yes**
Consultants/Advisory	**Yes**
Other Asset owners Regulators	

Climate Risk Dimension

4. For non-financial preparers of climate risk and opportunity information, what are the top three key concerns that you would like the Task Force to keep in mind in making our recommendations?

- Climate change and future measures to reduce emissions are inherently uncertain. It is crucial that disclosures are sufficient to enable users to form their own views of the potential risks, both short and long term
- Materiality is a difficult issue and needs to be judged carefully. A reporting entity may have an environmental impact which is material to the local or global ecosystem, but immaterial to the entity's balance sheet. Any test of materiality on inputs and outputs should bear in mind that users may want to aggregate and compare across entities so they can, for example, weight towards less polluting companies
- A voluntary system will allow flexibility in the timing of implementation, the revision of existing standards and the necessary changes in business practices. For this approach to succeed, the system will need to be cost effective and have the general support of preparers, users, regulators and governments.

5. For users of climate risk and opportunity information, what are five specific points of information that you wish to secure?

The information should provide a view on how businesses, investors and lenders are addressing climate risk. Asset owners and lenders are key players in the financial system, so from this perspective:

- Asset owners should set out their investment beliefs on climate change
- Banks should set out their lending policies with respect to climate change
- Investment managers and lenders should explain how they are managing climate risks and the exposure of funds/loans to climate risks
- Individual entities should disclose whether the business, its supply chain and customers are exposed to physical, liability and/or transition risks and how they are being addressed. Specifically, this would include the location of main plants and vulnerability to physical damage, the nature of supply chains and customers, claims against the business and details of GHG emissions and where they occur in the business
- How do entities identify, assess and mitigate these risks and what contingency plans do they have?

7. "Transition Risk" in terms of climate is an evolving term. How would you define this risk? What specific disclosures would help measure it?

- In this context, we would define Transition risk as the risks associated with implementing policy and regulatory initiatives to address climate change (e.g. carbon taxes, energy efficiency standards); market and economic responses to climate change (e.g. changes in consumer preferences, re-pricing of carbon intensive assets); and the rate of progress and change in technology to support a low-carbon economy. Disclosure of GHG emissions in the main business areas, would help measure transition risk because that shows exposure to measures to cut emissions. Disclosure of the carbon content of any fossil fuel reserves would also be helpful.
- Liability risk is sometimes included within transition risk, as it may not be a direct result of climate change, but a potential liability to another party for climate change losses, where the business is held to have contributed to climate change. Disclosures should cover any claims and include a statement from the risk officer.

8. Which three sectors do you think are most exposed to climate risks? For these sectors, how are physical, transition and liability risks best measured and reported?

- Energy, transport and agriculture are likely to be the most exposed. However, the ranking of each sector depends on the time horizon and the relative risk weight given to physical versus transition risks and business versus supply chain risks.
- Please see our response to questions 5 and 7 regarding how to best measure and report on physical, transition and liability risks.

9. How should the task force consider the challenge of aggregate versus sector-specific climate-related financial risks and opportunities?

- For the financial sector, a more natural lens is to distinguish aggregate and entity level risk. The entity is exposed to specific risks depending on its specific circumstances, ranking in some order of severity. However that ranking and the whole dynamic of the risk profile would change when aggregated with other entities within a loan book, or an equity or property portfolio for example. Focusing at sector level perhaps may represent an unnecessary generalisation.
- The Sustainable Accounting Standards Board standards are a good example of a standard process for comparison of entities within an industry and help investors understand climate (and wider sustainability) risks and opportunities across a portfolio.
- Furthermore, aggregate risks are important and may be difficult to quantify for entities investing/lending to SMEs and larger companies not subject to disclosure requirements. Consideration should be given to a simplified disclosure regime applicable for these entities.

10. Is there a role for scenario and sensitivity analysis – for the non-financial and/or financial sectors? Please provide three specific examples.

- Our view is that scenario and sensitivity analysis has a role in illustrating current risk exposures. These techniques are already used in many jurisdictions in assessing resilience in the financial sector (e.g. Solvency II).
- These types of analysis are particularly important for fossil fuel companies where a number of assumptions are needed to value their reserves. Sensitivity analysis may be useful for other entities too, given the significant uncertainty associated with climate change and the need to understand the variability of possible outcomes.
- However, moving these tools into more generalised standard practice might be premature at this stage. Detailed consideration would need to be given to (e.g.) ranges of plausible forward carbon prices to give reporting entities some guidance on these issues; otherwise

inefficiency, duplication of effort and a lack of comparability may ensue. Hence initially the focus should be on improving basic disclosures such as emissions data.

Asset Class Dimension

11. Which are the key asset classes that require initial attention? Are there any gaps that we should focus on? Within this, what are the top two priorities for action? (Limit 1000 characters).

Equities	Yes
Fixed Income	Yes
Commodities	Yes
Project and Infrastructure Finance	Yes
Real Estate	Yes
Private Equity	Yes
Loans and other bank financing	Yes
Other Disclosures on all asset classes are important from a portfolio perspective – it is vital that risks in individual equities (for example) get aggregated at the asset owner / fund manager level / bank loan book level.	

Priority for Action 1

- Rather than a focus on asset classes, the priority focus should be on reporting entities. This would result in coverage across both public and private entities and focus attention on the issuer rather than at the specific- issue level. This would also avoid any potential regulatory arbitrage where greenhouse gas emitting entities are placed off balance sheet to appear “cleaner”.

Intermediary/User Scope

14. How can climate risk information be simply summarized for retail investors? What standards or mechanisms exist for assuring end investors that climate risks and opportunities have been considered in the way that their savings and investment and pension products have been managed?

- Investment managers should ensure that they have simple disclosures on their funds for retail investors.
- Retail investors can access existing platforms which calculate the total emissions generated by a portfolio, using both verified data where this has been voluntarily reported, and approximations otherwise. However, the cost of these reports might be a barrier and require detailed listings, which a retail investor is unlikely to have.
- Similar metrics could be provided to end investors even where they have not actively looked for this information.
- We note that European Insurance and Occupational Pensions Authority has just finalised its Key Information Documents templates for Packaged Retail and Insurance-based Investment Products - the templates do not refer to climate risk.

Looking Ahead

18. How should the Task Force define “success”?

Success would be evidence that:

- all significant businesses are disclosing quantitative and qualitative information on their exposure to climate-related risks
- comparability of these disclosures is increasing, particularly with regard to GHG figures
- all significant players in the investment supply chain are making progress on climate-related disclosures, and
- the systemically important countries (e.g. G20) respond to the recommendations and lead by example in their own jurisdictions.

19. What are the key barriers that you believe the Task Force needs to overcome?

- The threats to the sustainability of the business models of fossil fuel and energy-intensive companies, accentuated by the Paris Agreement of COP21, generate a natural reluctance for some companies to readily provide the information investors seek.
- Overcoming the short-term focus of many actors in the financial system. The widespread use of quarterly investment performance reports encourages focus on short-term financial metrics by asset owners and asset managers. Active investment management tends to be focused on excess returns to a capital markets index benchmark. This focus is not naturally a long-term risk view. Institutional investors' investment paradigms tend to reflect traditional finance theory, which finds it difficult to incorporate long-term risks, such as climate change.
- Agreeing a set of comprehensive recommendations across jurisdictions that allows for comparison, particularly given the diversity of entities that should be disclosing climate-related information.

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20. Is the Task Force focused on the appropriate set of topics for its Phase II work plan?

Yes

21. What additional topics should it consider?

- The impact of any disclosure regime(s) could be enhanced by adopting a systems approach. Regulators and policymakers should focus on stimulating a climate risk perspective within the investment/capital system. Decisions by asset owners will drive behaviour in their suppliers (asset managers and others). There may be some functions in the system that are more attuned to a climate risk perspective than others, but regulators and policymakers should consider initiatives which encourage the development of this perspective throughout the system.
- The difficulty of assessing "third party" risks, such as risks in an entity's supply chain, or risks that the infrastructure which an entity relies upon (e.g. roads, bridges, water supply) are vulnerable to physical damage even if their asset is particularly resilient.

22. The Task Force plans to reach out to a broad sample of key stakeholders in the preparer, user and standard setting communities. Are there particular types of entities or organizations that you believe the Task Force should reach out to?

- Asset owners – to ensure the taskforce receives a balanced view between disclosures by entities that finance the real economy and those that operate in the real economy.