Institute
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of Actuaries

Recommendations of the Task Force on Climate-related Financial Disclosures

IFoA response to Task Force on Climate-related Financial Disclosures

10 February 2017

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

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Template for TCFD response

<u>All Sector Recommendations and Guidance</u>

The Task Force structured its recommendations around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets (see page 16 of the TCFD report). The Task Force believes it is important to understand the financial and strategic implications associated with climate-related risks and opportunities on organizations as well as the governance and risk management context in which organizations operate.

How useful are the Task Force´s recommendations and guidance for all sectors in preparing disclosures about the potential financial impacts of climate-related risks and opportunities?

Please select ONE only.

Very useful
Quite useful
Neither/nor
Not very useful
Not useful at all
Don´t know

The IFoA strongly supports the TCFD's recommendations, especially, that they place forward-looking information at their heart. We also believe the TCFD's report to be a valuable resource, as it provides useful information on climate-related risks and climate-related financial disclosure, and pulls together relevant public material for assisting with climate scenario development.

In particular, we welcome the TCFD acknowledging the limitations of quantitative information and promoting a balance between qualitative and quantitative information.

We consider the TCFD has struck the right balance between ambition and pragmatism, but we recognise that only a minority of organisations will be able to engage initially with the TCFD's recommendations to a significant degree. This is not a criticism, as they have inherent value for those who do engage. We therefore encourage the TCFD (or a successor body) to have a continuing role to develop processes and mechanisms for engaging with governments, regulators, asset owners and companies. The TCFD could encourage implementation and greater penetration across financial services.

The Task Force recommendations also provide a valuable resource against which to judge the adequacy and legality of the disclosures made under existing disclosure and reporting requirements.

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Supplemental Guidance

How useful is the Task Force´s supplemental guidance for certain sectors in preparing disclosures about the potential financial impacts of climate-related risks and opportunities? Please see the TCFD Annex for supplemental guidance.

Please select ONE only.

Very useful
Quite useful
Neither/nor
Not very useful
Not useful at all
Don´t know

Please provide more detail on your response in the box below.

Again, we found the supplemental guidance helpful. One area we thought might benefit from further clarity is the structure of the guidance for asset owners. Much of the all-sector guidance is not particularly relevant for asset owners. The supplemental guidance for asset owners, in effect, interprets the all-sector guidance from an asset owner perspective. The all-sector guidance is therefore largely redundant and could be confusing or off-putting for asset owners, particularly those that are inexperienced in climate risk. It might therefore be desirable not to include the all-sector guidance in the asset owner section in its entirety, but instead to include the relevant portions in a reworked version of the "supplemental". (For the avoidance of doubt, we do support the TCFD's approach of having identical recommended disclosures for all entities.)

In addition, we note that unlike the sections for other types of entity, the asset owner section does not include an analysis of the alignment with asset owners' existing disclosure regimes. This may reflect the lack of existing disclosure regimes, but we think such an analysis would be helpful, even if it has few entries. The identification of asset owners, and the supplemental guidance for them, is crucial since they direct the flow of long-term money (via investment managers) to companies (and other users of capital).

Finally, we note that the section on insurance seems focused particularly on non-life insurance. The impact of climate risk is also relevant for the liabilities of life insurers, for example through its impact on mortality, and we think this should be acknowledged.

Organizational Decision-Making

If organizations disclose the information consistent with the Task Force´s recommendations, how useful will that information be to your organization in making decisions (e.g., investment, lending, and insurance underwriting decisions)?

Please select ONE only.

Very useful
Quite useful
Neither/nor
Not very useful
Not useful at all
Don´t know

Please provide more detail on your response in the box below.

As a professional body, we do not directly make investment, lending or underwriting decisions. However, the Task Force recommendations will be major step in improving financial information and enabling our members to assess risks and better manage the financial institutions they advise.

In addition, individual savers, whose savings are aggregated by asset owners and managers, are currently inadequately served by asset owner disclosures regarding climate risks and opportunities and so we reiterate our earlier encouragement to the TCFD, or a successor body, to develop a programme of engagement, in this instance with asset owner regulators (for example The Pensions Regulator and the Financial Conduct Authority in the UK) to address this issue.

Additional Disclosures

What other climate-related financial disclosures would you find useful that are not currently included in the Task Force´s recommendations?

Please provide your response in the box provided.

Scenario Analysis

The Task Force recommends organizations describe how their strategies are likely to perform under various climate-related scenarios, including a 2°C scenario (see page 16 of the TCFD report). How useful is a description of potential performance across a range of scenarios to understanding climate-related impacts on an organization´s businesses, strategy, and financial planning?

Please select ONE only.

Very useful
Quite useful
Neither/nor
Not very useful
Not useful at all
Don´t know

Please provide more detail on your response in the box below.

A description of potential performance across a range of scenarios provides a more insightful analysis of how an organisation might respond in the face of changing circumstances. It is right that this type of risk management tool should form part of an organisation's business strategy development.

Over time, we think it would be appropriate to encourage standardisation of the scenarios considered to aid comparability of disclosures. The choice of scenarios should become easier over time as we see convergence within the market.

The Task Force recognizes that there are challenges around disclosing sufficient information to allow a better understanding of the robustness of an organization´s strategy and financial plans under different plausible climate-related scenarios. Some challenges may arise from unfamiliarity with scenario methodologies and metrics, insufficient practice standards, or cost. What do you view as effective measures to address potential challenges around conducting scenario analysis and disclosing the recommended information?

Please rank up to three most effective factors that apply.

Further work by industry trade groups and disclosure users on critical elements to be disclosed is needed to help overcome concerns that some information may be commercially sensitive	2
Reduce the cost of conducting and disclosing scenario analysis	
Additional methodologies and tools should be developed for use by organizations to enable more effective scenario analysis	1
Allow a year or two to phase-in scenario analysis and related disclosures	
Establish better practice standards around conducting and disclosing scenario analyses so that there are clearer rules of the road	
Other (please specify below)	3

Other (please specify)

At this stage, scenario analysis is more easily applied to the non-financial sector than the financial sector. Currently, it is harder to apply scenario analysis to financial entities, particularly asset owners, although this will become easier as there are improvements in the climate-related disclosures of the entities they invest in and to which they lend. Asset owners and managers could disclose the difficulties they encounter and their policies to encourage better disclosure.

We do not anticipate any difficulties
Not applicable

Please provide more detail on your first choice in the box below.

From the options provided, we believe additional methodologies and tools would be the most effective means for facilitating scenario analysis.

Whilst we are sympathetic to issues regarding commercial sensitivity, we believe the need for transparency of climate-related risk is of greater importance. We believe one of the key means of achieving this will be the demands of asset owners, via their asset managers. Demands for better disclosure by the entities asset owners invest in, together with developments in reporting requirements by regulators, listing authorities and standards boards will all be important in encouraging scenario analysis and disclosure. Such a level playing field will also be helpful to counter commercial sensitivity arguments.

We consider reducing the cost as secondary to the primary goal of preventing the misallocation of capital, particularly if the capital is locked into an inflexible carbon-heavy investment. In addition, we believe that organisations could have a cost benefit from undertaking scenario analysis.

We do not consider a phased approach to be necessary given the initial voluntary nature of these recommendations and the flexibility within the framework for organisations to develop their disclosures over time.

Metrics and Targets

The Task Force is recommending that organizations disclose the metrics they use to assess climate-related risks and opportunities in line with their strategy and risk management process. For certain sectors, the report provides some illustrative examples of metrics to help organizations consider the types of metrics they might want to consider. How useful are the illustrative examples of metrics and targets?

For illustrative examples see the following pages in the TCFD Annex
- Energy Group: pages 54-58
- Transportation Group: pages 66-70
- Materials and Buildings Group: pages 78-82
- Agriculture, Food, and Forest Products Group: pages 91-94

Please select ONE only.

Very useful
Quite useful
Neither/nor
Not very useful
Not useful at all
Don´t know

Please provide more detail on your response in the box below.

Whilst organisations may produce both qualitative and quantitative metrics and targets, disclosure by asset owners is more likely to be qualitative, at least initially. Asset owners and managers will be central in encouraging companies to adopt both qualitative and quantitative financial risk-relevant measures. Asset owners and managers will be dependent on disclosure by the businesses in which they invest but they should also disclose their sector exposures as detailed below.

Carbon-related Assets in the Financial Sector

Part of the Task Force's remit is to develop climate-related disclosures that would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector.

Beyond the metrics included in the Task Force's guidance, and supplemental guidance, what other metrics could be used to measure carbon-related assets in the financial sector?

There is a range of metrics which could be used in addition to GHG, for example the level of exposure, whether by lending to, investing in or insuring high-risk sectors as identified by the Taskforce. For pension funds, the risks relating to their sponsor will be relevant. A comprehensive consideration of what metrics should be used; including GHG emissions as identified by the Taskforce, will be helpful in promoting a better understanding of risk and comparability of disclosure.

The Task Force is recommending that organizations provide key metrics used to measure and manage climate-related risks and opportunities. For example, the Task Force recommends that asset owners (including insurance companies) and asset managers report normalized greenhouse gas emissions (GHG) associated with investments they hold (for each fund, product, and strategy) using available data (see Annex pages 35 and 41).

Please describe your views on the feasibility of implementing the above recommendation

In order for asset owners to be able to implement the Taskforce's recommendations in full, they will need a good level of compliance with the recommendations from the entities in which they are investing. Therefore, we agree with the footnote on page 30, that implementation will be an ongoing process.

Greenhouse Gas Emissions (GHG) Associated with Investments

How useful would the disclosure of GHG emissions associated with investments be for economic decision-making purposes (e.g., investing decisions)?

Please select ONE only
Very useful
Quite useful
Neither/nor
Not very useful
Not useful at all
Don't know
Please provide more detail on your response in the box below

GHG emissions can be a useful measure that forms part of an overall assessment of an organisations exposure to climate-related risk. However, there are issues with the level of reporting (Scope 1, 2 or 3), as well as issues with comparability of disclosure between entities. To improve data quality the Taskforce could usefully encourage the development of enhanced risk measurement methodologies.

In addition, we would encourage the Taskforce, or its successor body, to consider how methodologies might be developed for measuring GHG emissions for other assets classes and not just listed equities (e.g. hedge funds, private equity and alternative assets).

Remuneration

Which types of organizations should describe how performance and remuneration take climate-related issues into consideration?

Please select ALL that apply.

The Energy Group as recommended by the Task Force
Other non-financial sector organizations (please specify)
We suggest the TCFD also includes the three remaining groups it has selected – transport, materials and buildings, as well as food, agriculture and forest products.

Financial sector organizations (please specify)
We suggest the TCFD also includes banks, asset managers and asset owners, as well as both life and non-life insurers.

None

Adoption and Implementation

What do you view as the potential difficulties to implementing the disclosures?

Please select ALL that apply.

The information requested could be commercially sensitive
The time and cost of collecting the information
Climate-related disclosure is not part of our current regulatory requirements
Lack of experience with concepts and methodology
Multiple climate-related reporting frameworks currently exist
Other (please specify):
Primarily, there is a misconception of fiduciary duty for asset owners. There is also an over-preoccupation with the potential for a lack of political will to acknowledge climate change risk and the need for action, noting in particular the new US Administration.

What drivers, if any, do you think would encourage you to adopt the recommendations?

Please select ALL that apply.

Requests from investors to disclose
Requests from clients or beneficiaries
Reputational benefits and goodwill from adoption
Inquiries or requests from debt or equity analysts
Adoption by industry peers
Other (please specify)
As the IFoA is a professional body, it is not appropriate for us to adopt the recommendations. However, we have highlighted above those drivers we believe are most likely to encourage adoption of the recommendations. We will certainly support our members in encouraging their clients and employers to adopt the recommendations.

None of the above

Additional Feedback

What additional feedback you would like to provide the Task Force on the recommendations?

Please provide your response in the box provided.

We wish to congratulate the Taskforce on its comprehensive report. We recommend the TCFD builds on this valuable report by monitoring developments as a standing committee of the FSB, and developing processes and mechanisms for engaging with governments, regulators, standard setting bodies, companies and asset owners to encourage implementation.