Draft SSF Response to TCFD report consultation

Please note:

- Questions were filtered based on type of respondent
- Our answers in blue
- Our choice in multiple-choice questions highlighted in yellow
- As this is an online questionnaire, the layout of the answers is relatively basic

Q1c - Which of the following best describes your organization type?

Please select ONE only.

- Financial services sector, including asset owners
- Non-financial sector
- Non-Governmental Organization (NGO)
- Academia
- Industry/Trade association (Financial)
- Industry/Trade association (Non-financial)
- Other (please specify)

Q1d - Please select your primary industry from the list below:

Please select ONE only.

- Asset management
- Banking
- Credit rating agency
- Insurance (underwriting)
- Pension plans, endowments, foundations, and other asset owners
- Stock exchange
- Other (please specify)

Swiss Sustainable Finance (SSF) represents all types of financial players, from asset owners (pension funds, insurance providers, foundations) to asset managers and service providers, in addition to public sector entities and other associations.

Q2 - Which of the following best describes your perspective on the TCFD recommendations?

Please select ONE only.

- User of climate-related financial disclosures
- Preparer of climate-related financial disclosures

- Both a user and preparer
- Other (please specify)

Our organisation is involved in the promotion of sustainable finance.

Organizational Decision-Making

Q4a - 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

Organizational Decision-Making

Q4b - Please provide more detail on your response in the box below.

SSF is an industry association in the area of sustainable finance. One of our key roles is to increase visibility of sustainable finance issues by informing, educating and catalysing growth. For SSF, the benefits we see if companies disclose as recommended by TCFD are:

- Gaining more standardized data about climate-related financial disclosures
- Possibility of identifying best practices in reporting
- Providing a platform for sharing experiences, learning and benchmarking
- SSF is also convinced of the materiality of climate change issues on the performance of financial assets. Taking climate change challenges into financial decision making process should be the new normal in asset management or other financial activities such as borrowing and lending.
- This implies that disclosure of good climate change related data is essential for the capacity of the financial sector to create long-term values for their clients.

Scenario Analysis

Q6 - 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

Scenario Analysis

Q7 - Please provide more detail on your response in the box below.

SSF strongly encourages scenario analyses, as it provides more forward looking information, which could be much more important than past performance in terms of CO_2 emissions for example.

As projections vary drastically, not considering scenarios is NOT an option in our view. Therefore, we recommend that the TCFD puts a stronger emphasis on applying scenarios. The TCFD should strengthen its position concerning this and recommend not just looking at one scenario, but rather at cases of low/medium/high impact.

In addition, we feel the TCFD should recommend a standard 2°C scenario, rather than leaving the choice up to individual organisations. This would increase comparability of different companies.

Scenario Analysis

Q8 - 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?

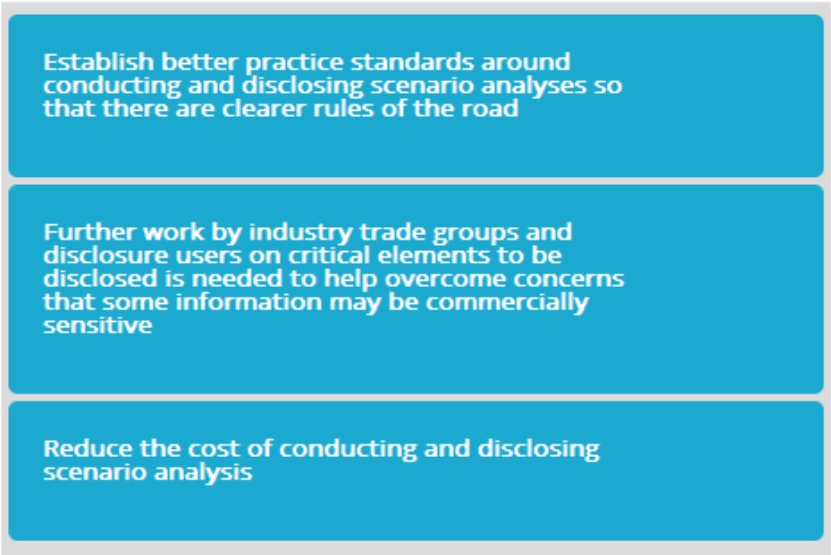
1. Further work by industry trade groups and disclosure users on critical elements to be disclosed is needed to help overcome concerns that some information may be commercially sensitive
2. Reduce the cost of conducting and disclosing scenario analysis
3. Additional methodologies and tools should be developed for use by organizations to enable more effective scenario analysis

4. Allow a year or two to phase - in scenario analysis and related disclosures
5. Establish better practice standards around conducting and disclosing scenario analyses so that there are clearer rules of the road
6. We do not anticipate any difficulties
7. Other (please specify)

8. Not applicable

Please rank up to three most effective factors that apply

Our choice of most effective factors:



Other proposed measures: creating acceptance amongst upper management of financial service providers.

Scenario Analysis

Q9 - Please provide more detail on your first choice in the box below.

We often hear from organizations that they don't know how to tackle the various expectations around climate-related financial disclosures in practice. More specific and hands-on standards around conducting scenario analyses and disclosing the recommended information so that there are clearer rules of the road are therefore most essential to address potential barriers.

Organizations usually tend to adopt backward-looking views. They need more concrete guidance when it comes to enhance a forward-looking view at this point.

Furthermore, clear rules and standardized procedures create a level playing field and help in diminishing concerns around competitive disadvantages.

Our main concerns about scenarios are that if they are not standardized, it will be very difficult to compare companies based on disclosure of strategies for each scenario.

Metrics and Targets

Q10a - 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

Metrics and Targets

Q10b - Please provide more detail on your response in the box below.

SSF supports the additional metrics and targets for these industries as it also feels that certain industries are more dramatically affected by climate change and therefore need more stringent controls. We however feel that commenting on the individual metrics and targets should be left up to industry experts in the respective fields.

Carbon-Related Assets in the Financial Sector

Q11 - 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?

Please provide your responses in the boxes provided.

Please note: the term carbon-related assets is not well-defined, but is generally considered to refer to assets or organizations with relatively high direct or indirect greenhouse gas emissions. The Task Force believes further work is needed on defining carbon-related assets and their potential financial impacts.

Although we feel there is a definite need to address Scope 1 and 2 GHG emissions to a greater extend in reporting, we feel the recommendations should more strongly recommend companies to also focus on the whole life cycle of their products and services and thereby capture their entire carbon footprint. The finance industry is already moving towards external estimations of Scope 3 emissions.

In an event on this topic, our organisation invited four different emissions data providers (MSCI, Inrate, Trucost, South Pole Group) to analyse the same portfolio. This resulted in four drastically different measurements. More information on the results can be found on our website under past events at: http://www.sustainablefinance.ch/en/2015-_content---1--3055.html#anchor_WLHYEA

The presentation showing the different portfolio analyses can be found here: http://www.sustainablefinance.ch/upload/cms/user/IIGCC_SSF_Carbon_Foot_print_workshop_WEB.pdf . The estimation of Scope 3 creates massive differences among consultants in their evaluations of the carbon content of the model portfolios. As Scope 3 is essential to capture all potential carbon risk, the finance industry needs more reliable data on this scope.

As it is probably too much to ask for a company to calculate its entire carbon footprint along its whole supply chain, including the usage phase, some consultants have adopted estimation techniques based on input/output matrices. Due to low update frequency or regional focus, there is however room for improvement regarding the quality of existing matrices. Therefore, SSF strongly advices that the TFCD also encourages the public sector and the private sector to bridge the gap on Scope 3 by financing research on metrics.

Moreover, this allows an external and thus impartial evaluation of Scope 3 of enterprises.

Carbon-Related Assets in the Financial Sector

Q12 - 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 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.

Please provide your response in the box provided.

Part of what makes financial statements trustworthy and applicable to use for investment decision making is that this is a standardized process that is also audited by accredited firms. We see that one additional issue will be to define how such information should be audited if there are no fixed standards (i.e. IFRS, US GAAP). As companies are not required to follow specific reporting standards, auditing of the information will be difficult and therefore the resulting figures will be deemed not comparable.

We may also have to anticipate that certain sectors (those heavily negatively affected by climate risks – i.e. oil/gas, finance) will be slower to apply these recommendations, as that their efforts (cost and time) involved are high compared to sectors with less exposure to climate risks (i.e. IT). As the costs to comply are higher, there could be higher resistance from these sectors.

Also related to inequalities of effort required to comply with the recommendations, we also expect that larger asset managers with numerous funds/strategies/mandates, will have trouble reporting on each individual fund/strategy/mandate. They may be compelled to draft standard policies that are not specific to each fund/strategy/mandate, which would not meet the transparency recommended by the TCFD.

Due to experiences described in our answer to question 11, SSF believes that asset owners' disclosure based only on Scope 1 and 2 for their assets is insufficient and will not lead to a satisfactory interpretation of the results. More work should be done on evaluating Scope 3.

In general, evaluating Scope 1, 2 and 3 of GHG emissions are backward-looking measures and do not indicate the real future carbon exposure of a portfolio. We consider metrics such as the estimation of future carbon exposure of companies (in 5, 10, 15 years) more useful for decision-making. Therefore, forecasting methods which allow the estimation of future emissions (based on strategies described by the companies within their different scenarios) should be developed.

SSF also considers that comparisons to benchmarks and communicating emissions per assets invested in relative terms alone can be misleading. If only relative data is available, it is difficult to judge if absolute CO_2 emissions were reduced.

Remuneration

Q14 - Which types of organizations should describe how performance and remuneration take climate-related issues into consideration?

Please select ALL that apply.

SSF recommends that both non-financial and financial sector organisations should also describe how performance and remuneration take climate-related issues into considerations.

- The Energy Group as recommended by the Task Force
- Other non-financial sector organizations (please specify)

Especially relevant for: Agriculture, Food, and Forest Products Group

- Financial sector organizations (please specify)

Especially relevant for: Banks

Additional Feedback

Q19 - What additional feedback you would like to provide the Task Force on the recommendations?

Please provide your response in the box provided.

In our view, it would be helpful to add guidance on effective ways for the measurement of portfolio carbon intensity as well as on methods to forecast such metrics, based on different scenarios. .

Furthermore, we feel more information on how the disclosed data should be used (i.e. concrete examples) could increase the willingness to report.

The example of the CDP project shows, that even if ample datasets are available, this data is not necessarily used be the target group (as illustrated by the asset owner disclosure project - http://aodproject.net/). Consequently, education for asset owners and asset managers on the importance of the consideration of such data is important. We therefore suggest that TCFD recommends that the financial prepares adequate training to relevant parties in order to increase the use of the data.