SSF Response to TCFD report consultation

8 February 2017, Zürich

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
- The full list of questions can be found here: https://www.fsb-tcfd.org/wp-content/uploads/2016/12/Public-Consultation-Reference-Guide_013117.pdf

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

- 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:

- 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?

- 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)?

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

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.

Having said this, we also recognize that numerous challenges exist related to the practical application of such recommendations. As such, we acknowledge that for our members, there are significant barriers to the application of the resulting data, including gaining management attention, finding resources (financial and personnel) and prioritising the recommendations alongside the multitude of other regulatory initiatives.

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?

- 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 and support the appropriate channels for defining respective standard scenarios for reasons of comparability and efficiency.

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 between 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:

SSF Rank:

1. Establish better practice standards around conducting and disclosing scenario analyses so that there are clearer rules of the road
2. 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
3. Allow a year or two to phase - in scenario analysis and related disclosures

Scenario Analysis

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

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.

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.

Moreover, companies will have varying interpretations how long short-, medium- and long-term horizons are, depending on the lifetime of assets, infrastructure or duration of products and services. In order to increase comparability within sectors it may be worth exploring whether industry sectors (e.g. financial services) and their sub-sectors (e.g. banks) could agree on a common definition of short-, medium- and long-term.

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

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

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.

As an industry association representing users of the intended climate-related disclosures, we also recognize that numerous challenges exist related to the practical application of such recommendations. As such, we acknowledge that for our members, there are significant barriers to the application of the resulting data, including gaining management attention, finding resources (financial and personnel) and prioritising the recommendations alongside the multitude of other regulatory initiatives.

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?

Although we feel there is a definite need to address Scope 1 and 2 GHG emissions to a greater extent 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.

However, we do see issues with data comparability between companies. Results will be comparable – at best – for a single institution over time, but not between institutions. Methodological variability and lack of comparability continue to be a challenge for making such disclosures meaningful.

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.

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.

We think it could be useful for the process of shaping methodologies to reflect the needs and challenges of the data providers and users to provide a platform for exchange of information. Different actors (data preparers, providers and users) could work together within and across sectors to exchange experience and to bring their work forward and allow metrics and methods to converge.

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 order to allow its use emission measurement.

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. In addition to past and current emissions, we consider metrics such as the estimation of future carbon exposure of companies (in 5, 10, 15 years) also 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. This would allow the combined evaluation of past, present and future emissions, giving a more accurate account of a company's efforts and developments.

Normalized/relative metrics (such as "CO2eq intensity per USD invested / lent") are meaningful signals to investors with regards to both the principle of materiality of climate-related financial risks and the objective of comparability of disclosure.

From another perspective, 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, which is why the provision of absolute data is also relevant to gain a full picture.

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 if and how performance and remuneration take climate-related issues into considerations.

We do however acknowledge that making such a link to remuneration is still in its early stages. As a first step, it might be beneficial to first focus on general sustainability targets, with Climate considerations as one aspect.

- 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, insurance, asset managers

Additional Feedback

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

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 and use the data. Such examples could also indicate the level of granularity that is useful for users of such data (i.e. too granular information may be cumbersome or sensitive for the reporting organization to compile, and too specific and effortful for users).

Taking the CDP project as an example, even if ample datasets are available, this data is not necessarily used by 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 financial actors prepare adequate training to relevant parties in order to increase the use of the data.

Given TCFD's focus on materiality, disclosures of climate-related financial information would benefit from additional guidance on what is or could be material (e.g. examples of materiality thresholds). This guidance could be provided by the TCFD or developed in industry-specific working groups.

Lastly, we find it important for the TCFD to engage with standard setting bodies for accounting and disclosure, such as IASB or FASB, to support a closer alignment of conventional financial accounting and disclosure and the new requirements recommended by the TCFD.