Submission to the Task force climate related financial disclosure – Phase II report

Consultation survey

Asset owner and asset manager

Preparer and user of disclosures

Consultation questions

Q3a 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?

Very useful	5
Quite useful	4
Neither/nor	3
Not very useful	2
Not useful at all	1
Don't know	97

4 quite useful

Q3b Please provide more detail on your response in the box below

Subject to our comments in this response, we welcome the Task Force's recommendations. If broadly adopted they will provide the basis for homogenous, appropriate and consistent financial climate disclosures across jurisdictions or standards, and, as relevant, sectors and asset classes.

The structuring of recommendations around governance, strategy, risk management, and metrics and targets is broadly in line with Norges Bank Investment Management's climate change expectation document. The report's discussion and guidance around these pillars are comprehensive and timely. The inclusion of material climate risks in mainstream financial filings should help improve consistency, relevance, accuracy and timeliness of reporting.

We nevertheless believe that the recommendations may potentially be missing an important element. The Task Force writes that it expects climate risk to be material for many organisations, yet the *recommendations implicitly assume that every company in every sector has a material exposure to climate risks. We understand the rational for setting a minimum disclosure requirement to ensure that relevant information is broadly communicated to the financial markets. However, determining the degree of materiality of different risks to a company's business is a matter for company boards. The Integrated Reporting framework provides useful guidance to identify and report on material risk factors. As methodologies and research develop, we believe that the recommendations should leave some flexibility for companies to themselves determine which factors are material to their business and should be included in financial statements.*

From this point of view we believe the Task Force should consider including in its recommendations an overarching 'comply or explain' mechanism where boards prepared to explain – in mainstream financial filings – how, and at the appropriate level of detail, why, they see no material climate change risks – should be able to do so. The Task Force may wish to provide further guidance on sectors for which it believes climate risk to be generally material. We assume the list provided for the guidance supplements may give useful indication in this regard. Generally, for improved guidance on materiality, a reference to the International Integrated Reporting Framework could provide companies with a useful starting point. We believe that one exception to the principle-based comply-or-explain mechanism outlined above could be a universal reporting requirement for greenhouse gas emissions, as suggested by the Task Force.

The framework defining the different climate risks and opportunities is useful. The emphasis on quantitative information to complement qualitative information gives a starting point for measurement and comparison. The metrics and targets recommendations are similarly useful in setting out the minimum disclosure requirements across sectors, and to aid the measurement of plans and progress against baselines and targets. Like the Task Force, we envisage that quantitative disclosures will develop over time.

For increased comparability of disclosed targets, the Task Force could refer to concepts such as science based target methodologies, which use 2-degree scenarios as a reference against which one and compare company trajectories. We believe emission intensity references to be an appropriate indicator as they also capture how companies grow their businesses in a low-carbon transition.

The quantification of financial impacts from climate change is challenging both technically and communicatively. The high-level delineation between types and sources of risks across varying time dimensions would provide valuable information. In addition to underlying uncertainty around severity and timing of regulatory developments or physical outcomes, many of the potential climate risks facing companies will be interdependent, and could be both reinforcing or negatively correlated, and themselves time varying. For example, innovation and deployment of new technologies tend to be path dependant. Feedback loops are yet to be fully understood and further research is needed.

Appropriate contextual information and transparency about methodologies and core assumptions will often be necessary in order to avoid misinterpretation of the information provided as part of the recommended disclosure. To us as investors, such transparency is essential to assess corporate strategies and decisions.

Supplemental Guidance

Q3c 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.

Q3d Please provide more detail on your response in the box below

Generally, we favour a sectoral approach that focuses on a few relevant material indicators. For GHG intensive sectors assumed to be most exposed to transition risks, a forward-looking assessment of business models' resilience in the short, mid and long term through scenario analysis is informative. However, as highlighted in the recommendation report itself, data must be analysed within the appropriate economic and regulatory context. The methodologies for such analysis at the company level are nascent and analytically challenging.

We would recommend that the Task Force or the FSB carry out further work to support academic and industry research to develop relevant datasets and accepted methodologies for the estimation of physical and transition risk scenarios. If scenario analysis is included in financial filings, the information could be interpreted as impairment tests. This may limit the willingness of companies to publicly disclose the results of such scenario analysis. This is another argument in favour of the development of transparent methodologies and improved data. Careful considerations would need to be given when attempting to link scenario analyses' outcomes with cash flows or asset valuations. A phased approach to enable companies to develop their disclosure on these matters as their understanding, methodologies and standards evolve, may be appropriate. This is not in contradiction of an expectation that companies consider the sensitivity of their long-term business strategy and profitability to different future regulatory and physical climate scenarios. It would simply more clearly allow disclosure around such analysis to evolve over time.

Q4a If organizations disclose the recommended information (or 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	5
Quite useful	4
Neither/nor	3
Not very useful	2
Not useful at all	1
Don't know	97

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

4 Quite useful

As outlined in the recommendations, the notion of materiality should be the key driver for disclosure to promote effective and cost efficient reporting, and avoid unnecessary information in main-stream financial filings. Focus on consistent qualitative and quantitative information should provide the basis for measurement of performance against targets and progress over time. The usefulness of such disclosure for investors will depend amongst others on a broad market adoption by companies facing material risks.

We support the key areas for further work highlighted by the Task Force, indeed, we them as crucial for the successful implementation of the Task Force's recommendations and ultimately meeting the Task Force's objectives. Future efforts by the FSB, building on the Task Force's analysis and recommendations, could include encouraging existing reporting platforms and standards to adopt the final recommendations to ensure consistency, comparability and broad adoption across companies and markets. Guidance on how the Task Force's recommendations fit with existing accounting or listing rules would be useful. This would provide practical help on how to integrate climate disclosure into mainstream financial filings through existing regulatory requirements.

Assessments of climate risks by investors rest on many still not fully described or understood premises. Further guidance on how to evaluate financial impacts – including the channels through which company impacts result in impacts on financial investments – for investors are necessary to more deeply analyse the market implications of climate change, and appropriate investor responses.

Q5 What other climate-related financial disclosures would you find useful that are not currently included in the Task Force's recommendations?

We believe companies should report on other relevant aspects of transition risk such as investment plans, age and characteristics of plants and equipment and R&D spending. We would also like to see renewable energy consumption targets for companies above a certain size. Finally, as investors, we would like transparency around companies' lobbying activities related to climate change. These aspects are not necessarily material and relevant for financial disclosures by all companies, but represent good practices the Task Force may wish to consider.

Scenario Analysis

ASK ALL

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	5
Quite useful	4
Neither/nor	3
Not very useful	2
Not useful at all	1
Don't know	97

4

Q7 Please elaborate on your response above. If you selected "Not very useful" or "Not useful at all" please indicate what would be more useful.

The introduction of scenario analysis for GHG-intensive businesses to complement static disclosures enables forward-looking assessments of strategic plans, evolving risks, and opportunities. The recommendation leaves also the possibilities *for companies to develop own scenarios that take into account national plans and targets for emission reduction, particularly for companies in emerging* *markets. The technical supplement on scenario analysis provides useful guidance while at the same time outlining important challenges related to datasets and methodologies.*

The recommendations set out, through scenario analysis for GHG intensive businesses, the requirement for forward looking assessments of business models vulnerability or resilience to physical risks and transitions risks induced by climate change. We would like to highlight the current challenges in trying to perform such scenario analysis (accessibility of key parameters and assumptions, non-normal distribution of the unknown), lack of accepted methodologies. For transition risks, the majority of transition scenarios provide output such as the energy mix under given assumptions, but rarely provide a set of sector or activity specific results. Further research to converge on accepted methodologies and develop relevant datasets and references would be helpful.

The output of IPCC or other relevant climate modelling of physical scenarios is currently not easily accessible, making the understanding and comparison of scenarios presented by companies difficult to perform for financial institutions. More practical guidance would be useful.

Additionally, 2-degree scenario analysis by financial actors at investment strategy and portfolio levels would be reliant on establishing necessary premises and the channels through which climate risk and opportunities may be correctly reflected in market prices. These financial theory dimensions have not been fully explored. We believe it is important to be mindful of such challenges and recognise that these aspects of the Task Force's recommendations represent long-term targets, where both knowledge and practice will evolve over time.

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?

Please rank your top 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	1
Reduce the cost of conducting and disclosing scenario analysis	2
Additional methodologies and tools should be developed for use by organizations to enable more effective scenario analysis	3
Allow a year or two to phase-in scenario analysis and related disclosures	4
Establish better practice standards around conducting and disclosing scenario analyses so that there are clearer rules of the road	5
We do not anticipate any difficulties	6
Other (please specify)	94
Not applicable	96

1, 3 and 5

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

Metrics and Targets

ASK ALL

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?**

Quite Useful.

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

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

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?

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).

The term carbon-related assets is not well-defined. We understand it as referring to assets or organizations with relatively high direct or indirect GHG emissions. We believe that further work is needed on defining carbon-related assets and their potential financial impacts. The metrics recommended focus on normalized GHG emissions associated with investments (for each fund, product, and strategy) using available data. This can provide an understanding of the portfolio carbon footprint, i.e. the aggregate GHG emissions embedded in the portfolio. GHG footprinting provides a static picture of current emissions and emission intensities, but not necessarily a picture of future risk exposure. Exposure to physical climate risks, for example, is not captured by an absolute or relative carbon intensity metrics. Neither does it give any information of future emission trajectories.

Furthermore, normalized GHG figures need to be supplemented by contextual information, such as information on the fund manager's investment mandate, including the sector allocation. The specificity of investment mandates, for example the extent to which these are passive or active, sets the basis for investment strategy and portfolio positioning. For example, passive managers will have a limited risk budget constraining the ability to execute portfolio adjustments versus their given benchmark.

Q12 Please describe your views on the feasibility of implementing the above recommendation

Investors' ability to calculate accurately the carbon footprint of their portfolios remains dependent on companies adopting the recommendations and providing consistent and comparable emissions data.

Norges Bank Investment Management has, since 2014, analysed the greenhouse gas emissions from the companies in our equity portfolio and published this data in our annual report on Responsible Investment. In 2016 we also calculated the carbon footprint of our fixed-income corporate bond portfolio for the first time. A key challenge in this exercise is the fact that not all companies report sufficiently standardised data. Our analyses are therefore based on extensive use of modelling by specialised data providers.

Q13a 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

Quite useful

13B explain

The disclosure of GHG emissions data can provide a useful snapshot of the total emissions and emission intensity of an individual company, portfolio or manager. This does not, however, provide a picture of future emissions or exposure to, and mitigation of, physical and transition risks related to climate change. Static emissions data should be evaluated alongside information that can provide a more complete picture of how climate related risks and opportunities are being managed. Data on current or past emissions alone may inform investment decisions, but is unlikely to be a deciding factor in such decisions.

Remuneration

ASK ALL

Q14 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	1
Other non-financial sector organizations (please specify)	2
Financial sector organizations (please specify)	3
None	4

1 energy

Q15 What do you view as the potential difficulties to implementing the disclosures?
Please select ALL that apply

The information requested could be commercially sensitive	1
The time and cost of collecting the information	2
Climate-related disclosure is not part of our current regulatory requirements	3
Lack of experience with concepts and methodology	4
Multiple climate-related reporting frameworks currently exist	5
We do not anticipate any difficulties related to implementing the disclosures	6
Other (please specify)	94

2, 4 and 5

Q16 What, drivers if any, do you think would encourage you to adopt the recommendations?
Please select ALL that apply

Requests from investors to disclose	1	Go to Q17
Requests from clients or beneficiaries	2	
Reputational benefits and goodwill from adoption	3	
Inquiries or requests from debt or equity analysts	4	
Adoption by industry peers	5	
Other (please specify)	94	
None of the above	98	Go to Q18

94. We have assessed climate change risk for a number of years and view the recommendations as broadly appropriate for our institution. We will work to adopt the final recommendations subject to the methodological and informational challenges highlighted in this submission.

Q17 What support or actions would be helpful to you in implementing the disclosures within the next two years?

NA

Q18 The Task Force's recommendations are focused on disclosure in financial filings; within what timeframe would your organization be willing to implement the recommendations in financial filings?
Please select ONE only

We already report these disclosures in financial filings	1
In the next one to two years	2
In three to five years	3
We do not intend to implement the recommendations	4
Do not know (please explain)	97

97

We intend to implement the recommendations from the task force over time. We will continue to support research to provide foundation and methodologies to enable adoption of the guidance.

Additional Feedback

ASK ALL

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

We agree that the financial sector disclosure is dependent on other sectors' disclosures. Investors can promote such disclosure, but are not accountable for it. More direction from FSB/ G20 on how the recommendations could be implemented in the broader accounting and regulatory frameworks would be useful.

Methodologies are still in development so that good practice under many of the reporting recommendations will be a moving target. Datasets and methodologies for climate related scenario analyses are at an early stage. The consideration of scenario analysis performed by investee companies may be informative, but improved datasets and the standardization of methodologies will be needed before the financial sector is able to fully perform analysis aggregated at the portfolio level.

Please find attached a letter with a summary of our main comments.