

SIFMA AMG response to the Task Force on Climate-related Financial Disclosures Forward-Looking Financial Sector Metrics Consultation

1 General

1.1 Where is your organisation headquartered?

1.1.1 **United States of America**

1.2 What is your role / position?

1.2.1 Academic/industry expert; Administration; Board Member; Compliance; Corporate reporting; Corporate strategy; Finance; General management; Government/regulatory affairs; **Investment/asset management**; Legal; Risk; Sustainability; Technology; Other (please specify)

1.3 Which one of the following best describes your organisation?

1.3.1 Financial services, including asset owners; Non-financial company; Data/Methodology Provider; Government/Public Sector; **Industry/Trade association**; Standard setter or framework; NGO; Academia/Education/Research; Other (please specify)

2 Forward-looking metrics

2.1 In what way are forward-looking climate-related metrics used within your organisation. Check all that apply.

2.1.1 For internal risk management, strategy or financial planning;

2.1.2 For investment/portfolio allocation decisions;

2.1.3 For engagement with companies in which we invest;

2.1.4 For communication with investors or other stakeholders;

2.1.5 Other (please specify);

2.1.6 **We do not use forward-looking climate-related metrics.**

2.2 If you do not use forward-looking climate-related metrics, why not? (Free text response)

2.2.1 The Asset Management Group of the Securities Industry and Financial Markets Association (“**SIFMA AMG**”) brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG’s members represent U.S. and global asset management firms whose combined assets under management exceed \$45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit <http://www.SIFMA AMG.org/amg>. This response is also submitted on behalf of the Asia Securities Industry and Financial Markets Association (“**ASIFMA AMG**”), SIFMAAMG’s Asian affiliate regional trade association which comprises over 140 leading buy and sell-side financial institutions and who alongside SIFMA AMG forms part of the Global Financial Markets Association.

SIFMA AMG appreciates the TCFD's starting point with this Consultation Paper and discussion around forward-looking metrics. Our members are active participants in the journey towards climate-related (and other ESG-related) disclosures and do not wish to act contrary to such developments.

However, our members are keen to stress two key issues that currently challenge the use of forward-looking metrics in investment processes and reporting.

The first of these is data. Our members currently experience significant difficulties in obtaining ESG-related data, particularly in relation to climate and temperature-aligned metrics. Data providers, who perform a key role in this space supporting our members, have significant gaps in their data coverage capabilities. In addition, and particularly as regards forward-looking metrics, data, where it is provided, is often unreliable due to the number of caveats and assumptions made in the calculation process. Beyond data providers, our members are also often reliant on the reporting of data by issuers themselves. In light of this, should the TCFD look to make any new recommendations in relation to forward-looking climate-related disclosures, our members believe the best approach would be to first require issuers to implement such recommendations. This would help with the development of a more reliable data source and consistent approach (see methodology point below) which service providers and financial institutions can then look to follow.

The second challenge is related to methodologies. Even where data is available in respect of those assets/investees in relation to which our members are making investment decisions, there is a lack of clarity, transparency and consistency on the methodologies adopted to calculate/provide such data. This ultimately means that the usefulness of any metric seeking to provide decision-useful information to our members' clients is significantly undermined.

Beyond issues with the metrics themselves, but related to such issues, are the concerns of our members regarding liability. The TCFD will be well aware of the increased scrutiny placed on ESG and in particular climate-related disclosures as well as the increased trend in actions being brought in relation to disclosures. Our members are reluctant to support the recommendation of reporting of forward-looking metrics when liability may be placed on them in circumstances where inaccuracies in the data (or conclusions drawn therefrom) are likely to occur and not within their control.

As an additional, related comment our members would also like to take this moment to encourage the TCFD to look towards other global developments when considering its future recommendations. Our members are engaging with an increased proliferation of initiatives, standards and guidance that have been proposed, discussed and issued and are concerned about the potential impact of diverging and conflicting developments in the space that ultimately undermine the objective of each of the individual developments. We recognise there is coalescence around the core TCFD requirements – but we note multiple other initiatives that remain in play. Core to our ability to report is the provision to us of reliable, comparable, decision-useful data and a smaller universe of standards and methodologies. We would urge that future regulatory and soft law reporting bodies work towards a harmonised global reporting standard.

Finally, any recommendations for inclusion within the TCFD framework relating to fund or strategy level disclosure of climate-related metrics should only apply to the extent such a metric is relevant and material to the particular fund or strategy in question. To do otherwise risks introducing onerous requirements that would make disclosures not relevant to the products offered to investors.

2.3 How do you currently view disclosure for forward-looking climate-related metrics?

2.3.1 The challenges outweigh the benefits;

2.3.2 Challenges are proportionate to the benefits

2.3.3 The benefits outweigh the challenges now;

2.3.4 The benefits will outweigh the challenges if there is further standardisation of metrics.

2.4 Is there anything additional you would like to tell us about your response above? (Free text response)

2.4.1 As noted in our previous response, SIFMA AMG and our members are obliged to highlight current difficulties with forward-looking metrics, particularly as regards the availability of the underlying data required for such metrics (and its reliability) and the methodologies used for the calculation of the data.

These are significant challenges that need to be addressed before any advances should be made to forward-looking metrics. We would urge that the TCFD first look to address the data challenges before taking forward any work on specific forward-looking metrics and making any recommendations in relation to their disclosure. In looking at these challenges, the SIFMA AMG members believe that the TCFD could play, in conjunction with industry and the other actors in this space, an important role in the development of a reliable, consistent methodology for any calculations and is well-placed to do so given the widespread convergence around the initiative.

In relation to recommended disclosures, SIFMA AMG also notes the considerable amount of work being done by a wide range of actors in this space and would urge all bodies to adopt a collaborative approach with other actors to ensure that a harmonised approach to reporting requirements is achieved.

2.5 How does the lack of reliable or comparable GHG emissions data impact the usefulness of forward-looking metrics as part of financial decisions?

2.5.1 It's a significant barrier;

2.5.2 It's somewhat of a barrier;

2.5.3 It's not much of a barrier;

2.5.4 It's not a barrier at all;

2.5.5 I don't know.

2.6 Is there anything additional you would like to tell us about your response above? (Free text response)

2.6.1 As noted in our previous responses, a lack of data is a significant barrier to the ability of our members to support the use and recommended disclosure of forward-looking metrics.

The lack of comparable and reliable underlying data means that the use of the metric itself is undermined as a tool to provide our members' clients with decision-useful information. The lack of reliability means the metrics we would be required to disclose would themselves be unreliable and the lack of comparability in the underlying data would mean the metrics we were required to disclose could present a misleading picture of the performance of the underlying assets/investees.

Both issues would represent a liability risk to our members, who are generally subject to the requirement to provide information that is fair, accurate and not misleading and are increasingly seeing actions brought by individuals and other actors based on disclosures.

2.7 Which GHG emissions scopes should be covered in an ideal forward-looking methodology for metrics related to emissions? Select all that apply.

2.7.1 **Scope 1;**

2.7.2 **Scope 2;**

2.7.3 **Scope 3;**

2.7.4 None.

2.8 Is there anything additional you would like to tell us about your response above? (Free text response)

2.8.1 In line with our previous responses, SIFMA AMG highlights the issues with forward-looking metrics which mean that our members cannot support their recommended disclosure.

However, were those issues to be addressed, the "ideal" forward-looking metric based on GHG emissions would capture all sources of such emissions. This is important in light of the increasing number of commitments made by various actors globally to "net zero" targets and the increasing focus on a full lifecycle/'cradle-to-grave' approach.

2.9 How important is it to understand which scenarios and pathways were used in the calculation of forward-looking metrics to make them decision-useful?

2.9.1 **Very important;**

2.9.2 Somewhat important;

2.9.3 Not very important;

2.9.4 Not at all important.

2.10 Is there anything additional you would like to tell us about your response above? (Free text response)

2.10.1 As set out in our previous responses, the current obstacles to forward-looking metrics are the underlying data and methodologies for calculation.

For forward-looking metrics to be decision-useful, the methodologies used, and assumptions made, including as regards scenarios and pathways, should be clearly set out and understood.

2.11 Which of the following metrics do you find useful for financial decision-making?

- 2.11.1 Amount of apportioned emissions over/under a 1.5oC alignment trajectory – (a) useful now; **(b) could be useful with improvements to methodology**; (c) not useful.
- 2.11.2 A forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon – (a) useful now; **(b) could be useful with improvements to methodology**; (c) not useful.
- 2.11.3 The proportion of underlying investments that are aligned with the EU Taxonomy – (a) useful now; **(b) could be useful with improvements to methodology**; (c) not useful.
- 2.11.4 Unpriced carbon cost – (a) useful now; **(b) could be useful with improvements to methodology**; (c) not useful.
- 2.11.5 Implied temperature rise or warming potential – (a) useful now; **(b) could be useful with improvements to methodology**; (c) not useful.
- 2.11.6 Carbon earnings at risk – (a) useful now; **(b) could be useful with improvements to methodology**; (c) not useful.
- 2.11.7 Climate value at risk – (a) useful now; **(b) could be useful with improvements to methodology**; (c) not useful.
- 2.11.8 Other (please specify) – (a) useful now; **(b) could be useful with improvements to methodology**; (c) not useful.

2.12 Is there anything additional you would like to tell us about your response above? (Free text response)

2.12.1 As set out in our previous responses, SIFMA AMG and our members' concerns around forward-looking metrics are in relation to data and methodology.

We would therefore urge the TCFD to look to address, in conjunction with other actors in the space, those issues before making any recommendations as regards the disclosure of such metrics.

2.13 Which of the following metrics would you find useful if disclosed by the following groups?

- 2.13.1 Carbon earnings at risk – (a) asset owners; (b) asset managers; (c) banks; (d) insurance companies; (e) none; **(f) I don't know**.
- 2.13.2 Climate value at risk – (a) asset owners; (b) asset managers; (c) banks; (d) insurance companies; (e) none; **(f) I don't know**.
- 2.13.3 A forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon – (a) asset owners; (b) asset managers; (c) banks; (d) insurance companies; (e) none; **(f) I don't know**.
- 2.13.4 Implied temperature rise or warming potential – (a) asset owners; (b) asset managers; (c) banks; (d) insurance companies; (e) index providers; (f) none; **(g) I don't know**.
- 2.13.5 The proportion of underlying investments that are aligned with the EU Taxonomy – (a) asset owners; (b) asset managers; (c) banks; (d) insurance companies; (e) index providers; (f) none; **(g) I don't know**.

- 2.13.6 Unpriced carbon cost – (a) asset owners; (b) asset managers; (c) banks; (d) insurance companies; (e) none; **(f) I don't know.**
- 2.13.7 Amount of apportioned emissions over/under a 1.5oC alignment trajectory – (a) asset owners; (b) asset managers; (c) banks; (d) insurance companies; (e) none; **(f) I don't know.**

2.14 Is there anything additional you would like to tell us about your response above? (Free text response)

2.14.1 We have selected the option “I don't know” in relation to each of the options for Question 2.13. That is because of concerns relating to the data and methodologies underlying these metrics. Before certain metrics are recommended to be disclosed (particularly as recommendations are in a number of jurisdictions being made/considered being made mandatory as part of reporting requirements), we would invite the TCFD to, in conjunction with industry and other actors in this rapidly developing space, focus first on addressing the underlying data and methodology issues concerned with such metrics. Should the TCFD introduce any new reporting requirements, it should also look to provide detailed guidance to assist with their implementation.

Our members note, however, that from an asset manager perspective, if they are required to make disclosures against the various metrics listed, it would be necessary for publicly traded banks and insurance companies to be similarly required to report. This is because their disclosures would be necessary to enable the disclosures by asset managers.

2.15 Which of these changes would improve the usefulness of forward-looking disclosures for you?

- 2.15.1 More useful narrative content;
- 2.15.2 **More clarity and transparency in calculation methodologies;**
- 2.15.3 **Better availability and quality of GHG emissions data;**
- 2.15.4 **Use of standard forward-looking emissions pathways;**
- 2.15.5 **More comparable approaches to calculation methodologies;**
- 2.15.6 Other (please specify)

2.16 Is there anything additional you would like to tell us about your response above? (Free text response)

2.16.1 As flagged throughout our previous responses, before our members can be recommended to disclose any forward-looking metrics, particularly given the increased scrutiny placed on such disclosures and the inherent liability risk involved in making them, we would urge the TCFD to look at what it can do, in conjunction with industry and other actors, to ensure that the data underlying such metrics is made more reliable and the calculation processes involved are more transparent, clearer and more consistent. This is a particular issue given that the TCFD is being incorporated into regulatory reporting requirements in an increasing number of countries (for example the EU, the UK, New Zealand, Hong Kong, Singapore and Switzerland)

3 Implied Temperature Rise (“ITR”)

3.1 To what extent does your organisation find current ITR disclosures useful in financial decision-making?

3.1.1 Very useful;

3.1.2 Somewhat useful;

3.1.3 Not very useful;

3.1.4 Not at all useful;

3.1.5 **Not applicable/I don't know.**

3.2 Please tell us more about your answer (Free text response)

3.2.1 By and large, our members are not currently aware of widespread use of the ITR metric and so cannot comment in detail on its usefulness. They would note that where they have seen it used, the lack of aligned methodology leads to differing and incomparable results that also have the potential to over or under-estimate the potential for temperature rise and consequently provide a distorted indication of the climate-related risk. This makes it difficult to understand the degree of usefulness of the metric. If these issues could be resolved however, the metric could be helpful in signalling to stakeholders the alignment of intentions beyond simply the financial.

SIFMA AMG and its members view the TCFD's decision to focus on the ITR metric as potentially related to, and based on, recent movements in the industry to align with a net zero pathway. SIFMA AMG and its members would encourage the TCFD to expressly acknowledge any such link in any other documentation it issues in relation to this consultation or the ITR metric. If there is a relationship between this industry direction of travel and the TCFD's proposed recommended disclosures, it would be helpful to make this clear so that the industry has consistency and alignment in approach across the various developments being progressed in this space.

3.3 Has an ITR rating influenced a specific financial decision your organisation has made?

3.3.1 Yes;

3.3.2 **No;**

3.3.3 I don't know;

3.3.4 Other (please specify).

3.4 Please provide any further information on why an ITR rating has or has not influenced a decision, as applicable (Free text response)

3.4.1 As indicated in our previous response, our members are not on the whole aware of widespread use of the ITR metric. Given its limited use and the limitations of forward-looking metrics commented on throughout our previous responses it has not influenced any investment decisions made by our members who would again flag the key concerns of inconsistent methodologies and unreliable data as these issues would preclude the use of the ITR metric in making decisions. Some members have

considered ITR in combination with other factors, leading to financial decisions being influenced.

3.5 What are the benefits of ITR as a metric? Select all that apply

- 3.5.1 Usefulness for assessing climate-related risks;
- 3.5.2 Comparability at different levels (e.g. fund, portfolio, company, other);
- 3.5.3 Easy to understand;
- 3.5.4 Usefulness for assessing climate-related opportunities;
- 3.5.5 Useful for engagement;
- 3.5.6 Useful for assessments of strategy;
- 3.5.7 There are no benefits;
- 3.5.8 **Other (please specify).**

3.6 Is there anything additional you would like to tell us about the usefulness of ITR as a metric? (Free text response)

3.6.1 We are of the view that a number of the options set out in the previous question are potential benefits of the ITR metric. We have chosen not to select these in our response however because of the key point that they are not currently benefits of the ITR metric but could become benefits, provided that the previously raised issues around data and methodologies are resolved.

The feedback from our members relating to the ITR metric in particular is that, of the various options for forward-looking metrics, it is the option that most might be able to report on/against.

However, further to point set out in the first paragraph above, our members believe the TCFD, in conjunction with industry and other actors in this space, should be looking first to tackle the underlying data and methodology issues before looking at specific metrics as those challenges need addressing before the usefulness of the ITR metric can be assessed. As noted above, we believe the TCFD alongside others is well-placed to play an important role in the work that needs to be done concerning the development of a consistent, reliable methodology.

3.7 How much would each of the following improve the rigor and usefulness of ITR disclosures?

- 3.7.1 Better availability and quality of GHG emissions data – **(a) Improve a lot;** (b) Improve a little; (c) Would not improve.
- 3.7.2 More clarity and transparency in calculation methodologies – **(a) Improve a lot;** (b) Improve a little; (c) Would not improve.
- 3.7.3 More comparable approaches to calculation methodologies – **(a) Improve a lot;** (b) Improve a little; (c) Would not improve.
- 3.7.4 Use of standard forward-looking emissions pathways – **(a) Improve a lot;** (b) Improve a little; (c) Would not improve.

3.8 Please provide any additional information about how the rigor and usefulness of ITR disclosures could be improved (Free text response)

3.8.1 As set out in our previous responses, the issues surrounding data and calculation methodologies are key and significant challenges to the use of forward-looking metrics, particularly in the climate space. These challenges need to be addressed before the usefulness and rigor of the ITR metric can be assessed. Our members are of the view that it would be helpful if issuers led with the disclosures in this area, helping with the development of the TCFD's approach which service providers can then look to follow.

3.9 How useful would disclosure of an ITR rating be from the following types of financial organisations?

3.9.1 Asset owners – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.9.2 Asset managers – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.9.3 Banks – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.9.4 Insurance companies – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.9.5 Index providers – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.9.6 Other organisations (please specify) – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.10 Please provide any additional information about how disclosure of an ITR rating from a financial organisation could be useful (Free text response)

3.10.1 SIFMA AMG and our members would have preferred to leave this question blank and not submit a response. We have selected "somewhat useful" only by virtue of a response being required to be provided in order to submit the consultation response. This answer should not, however, be taken as the view of the SIFMA AMG or its members.

3.11 How useful would an ITR rating be for each of the following asset classes?

3.11.1 Listed debt – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.11.2 Real Estate – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.11.3 Listed equity – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.11.4 Loans to corporates – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.11.5 Mortgages – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.11.6 Sovereign debt – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.11.7 Other asset classes (please specify) – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.12 Is there anything additional you would like to tell us about your response above? (Free text response)

3.12.1 SIFMA AMG and our members would have preferred to leave this question blank and not submit a response. We have selected "somewhat useful" only by virtue of a response being required to be provided in order to submit the consultation response. This answer should not, however, be taken as the view of the SIFMA AMG or its members.

Beyond that we would note that the calculation of Scope 1 and 2 emissions (necessary for the ITR metric) for all asset classes, and particularly those beyond equities, is difficult. We would prefer that the TCFD recommendations allow flexibility around disclosure of specific metrics if the data is not available, or climate-related risks are not relevant or material.

3.13 For each sector listed below, how useful would you find an ITR rating in financial decisions? [LL comment: Question not responded to]

3.13.1 Agriculture, food and forest products – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.13.2 Energy – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.13.3 Materials and buildings – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.13.4 Transportation – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.13.5 Other sector (please specify) – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.14 Is there anything additional you would like to tell us about your response above? (Free text response)

3.14.1 SIFMA AMG and our members would have preferred to leave this question blank and not submit a response. We have selected "somewhat useful" only by virtue of a response being required to be provided in order to submit the consultation response. This answer should not, however, be taken as the view of the SIFMA AMG or its members.

3.15 How useful would disclosure of an ITR metric be at each of the following levels? [LL comment: Question not responded to]

3.15.1 Company level – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.15.2 Portfolio level – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.15.3 Fund level – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

- 3.15.4 Investment strategy level – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.
- 3.15.5 Asset level – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.
- 3.15.6 Other level (please specify) – (a) Extremely useful; (b) Very useful; **(c) Somewhat useful**; (d) Not very useful; (e) Not at all useful.

3.16 Is there anything additional you would like to tell us about your response above? (Free text response)

3.16.1 SIFMA AMG and our members would have preferred to leave this question blank and not submit a response. We have selected "somewhat useful" only by virtue of a response being required to be provided in order to submit the consultation response. This answer should not, however, be taken as the view of the SIFMA AMG or its members.

Beyond that, as with our responses to the previous questions concerning usefulness, the SIFMA AMG members would like to make clear that usefulness can only be assessed once the fundamental, underlying issues concerning data and methodologies have been resolved. It is only once these concerns regarding consistency and reliability are addressed that the TCFD, and other bodies/initiatives in this space, can look to be prescriptive around the disclosures required to be made.

Beyond that, our members have expressed the view that disclosures at the entity-level are best focused on an asset manager's broad strategy, approach and governance of ESG or climate-related matters. More granular information is relevant at the level of products that an investor might choose, whereas trying to provide this information at an aggregate entity level is onerous, burdensome and has limited usefulness. Our members believe that the TCFD has been able to garner such significant global traction owing to the principle-based, high-level approach adopted by the recommendations. Our members therefore think that the TCFD should be aiming to preserve that approach.

If so required, our members would prefer to disclose quantitative metrics at the fund or strategy level rather than at an aggregate entity level, to provide decision-useful data for investors. We also suggest that any recommendations emphasise that any fund or strategy level disclosure of climate-related metrics should be recommended to be made only to the extent it is relevant and material to the particular fund or strategy.

4 Final section

4.1 Name: Lindsey Keljo

4.2 Job Title: Managing Director

4.3 Company or organisation name: The Asset Management Group of the Securities Industry and Financial Markets Association

4.4 Corporate email: lkeljo@sifma.org

4.5 Please check the boxes that apply to you

4.5.1 You may contact me to discuss this consultation form;

- 4.5.2 **I'm interested in receiving a summary of the results of this consultation;**
- 4.5.3 I'm interested in staying in touch on further discussion on forward-looking metrics;
- 4.5.4 None of the above.