FORWARD-LOOKING FINANCIAL METRICS CONSULTATION

Summary of responses

March 2021
Background and scope of consultation

• The Task Force’s recommendations and supplemental guidance published in 2017 encouraged asset managers and asset owners to disclose to their clients and beneficiaries the metrics they use to assess climate-related risks and opportunities as well as other metrics they believe are useful for decision making.

• Disclosure practices and the use of disclosures by financial market participants have continued to evolve since 2017 through development of new research, tools, and resources as well as in response to a growing frequency of physical climate-related impacts.

• Additionally, 120 countries plus the European Union have announced that they are working towards achieving net-zero greenhouse gas (GHG) emissions by 2050—an indication of potential shifts in business models and capital flows that the financial sector seeks to understand.

• In this context, the Task Force on Climate-related Financial Disclosures (Task Force or TCFD) conducted a public consultation from October 29, 2020-January 28, 2021 to gather feedback on potential forward-looking metrics for financial firms.
  - The Task Force solicited views on decision-useful, forward-looking metrics to be disclosed by financial institutions, both requesting feedback on a specific set of metrics that have gained interest from the financial sector in recent years and on the usefulness of forward-looking financial metrics more broadly.
  - Invitations to respond to the survey were sent to TCFD supporters, representatives of NGOs, and business association partners as well as shared through TCFD’s social media pages.
  - A total of 209 respondents completed the consultation survey as of January 28. These slides summarize key findings from the consultation survey. Findings focus on the relevant subset of respondents for each question.
  - In addition, several firms/organizations submitted response letters, which will be considered when drafting additional guidance.
Overview of respondents
Roughly half of respondents were financial services firms. A quarter of respondents hold roles focused on sustainability, while a fifth are involved in investment and asset management. Half of respondents were from organizations headquartered in EMEA, with most of the remaining from the AMER and APAC regions.

<table>
<thead>
<tr>
<th>Organization type</th>
<th>Location of headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>EMEA 53%</td>
</tr>
<tr>
<td>Non-financial company</td>
<td>AMER 26%</td>
</tr>
<tr>
<td>Industry/Trade association</td>
<td>LATAM 3%</td>
</tr>
<tr>
<td>Academia/Education/Research</td>
<td></td>
</tr>
<tr>
<td>NGO</td>
<td></td>
</tr>
<tr>
<td>Data/Methodology Provider</td>
<td></td>
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<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Role/position</th>
<th>AMER 26%</th>
<th>EMEA 53%</th>
<th>APAC 18%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment/asset mgmt</td>
<td></td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Academic/industry expert</td>
<td></td>
<td></td>
<td>18%</td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td></td>
<td>9%</td>
</tr>
<tr>
<td>Government/regulatory affairs</td>
<td></td>
<td></td>
<td>6%</td>
</tr>
<tr>
<td>Board member</td>
<td></td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>Corporate reporting</td>
<td></td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>Risk</td>
<td></td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>12%</td>
</tr>
</tbody>
</table>

Q1: Where is your organization headquartered?
Q2: What is your role/position? Please select ONE only.
Q3: Which one of the following best describes your organization? Please select ONE only.
Base: Respondents (n = 209)
Key takeaways from the consultation

Use and disclosure of forward-looking financial metrics

- Three-quarters of respondents report using some form of “forward-looking metrics,” a category that includes not only the universe of metrics specifically considered in the consultation—for example, implied temperature rise, climate value-at-risk, and portfolio alignment estimates—but also a broader range of metrics that include measures of emissions, carbon intensity, environmental resources, and screening criteria.

- This broad set of metrics support many uses including risk management, portfolio allocation, and communication and engagement. Roughly half to three-quarters of respondents at financial firms report using at least one of these metrics, with asset managers reporting the highest use.

- Fewer report using the metrics described in the consultation. When used, these metrics are more likely to be used for monitoring than to support financial decision-making. Only a tenth of those that use these metrics currently disclose them, though an additional third plan to do so in the future.

Methodology considerations

- Respondents agree there are challenges using and disclosing the metrics described in the consultation, with roughly three-quarters particularly concerned with reliance on assumptions to derive future emissions, future uncertainty, and opaque or difficult methodologies.

- Despite the challenges raised, respondents agree that the consultation metrics could be useful with improvements to methodology, with roughly three-quarters point to the need for more transparency, comparability, and standardization across methodologies as well as improved emissions data.

- Almost all would like the methodology for forward-looking metrics to cover Scope 1 and 2 emissions, with many interested in Scope 3 as well, though many also noted the challenges around Scope 3 disclosures including inconsistent reporting and difficulty in accurate measurement.

The Task Force will consider these findings in its planned 2021 work on Metrics and Targets and will release broader, additional draft guidance for further market review.
Three quarters of respondents report using some form of "forward-looking metrics" but they define such metrics broadly

**Universe of forward-looking metrics discussed by respondents**

**Forward-looking metrics laid out in the consultation document**
- Implied temperature rise or warming potential
- Climate value-at-risk
- A forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon
- Unpriced carbon cost
- Carbon earnings at-risk
- Amount of apportioned emissions over/under a 1.5°C alignment trajectory
- The proportion of underlying investments that are aligned with the EU Taxonomy

**Additional forward-looking metrics mentioned by respondents**
- Future carbon emissions
- GHG emissions intensity
- Physical carbon intensity
- Carbon exposure
- Revenue intensity
- Weighted average carbon intensity
- Water usage
- Climate sensitivity
- Green/brown share

- Investment screening from climate related risk
- Qualitative & quantitative evaluations of climate VaR
- % of companies in Science-Based Targets Initiative
- MSCI ESG index scores
- Environmental impact of project finance
- Physical, regulatory, transition risks related to climate change

**Report using forward-looking metrics, broadly defined**

- **Currently use** 78%
- **Do not use** 22%

Q7: In what way are forward-looking climate-related metrics used within your organization? Check all that apply. Summary information represents percentage that checked at least one use case.
Base: Respondents (n = 209)
Respondents leverage a broad universe of metrics across a range of use cases—with asset managers reporting the highest use.

Use of forward-looking metrics
Financial services only

- For internal risk management, strategy, or financial planning:
  - Bank: 64%
  - Asset manager: 66%
  - Asset owner: 50%
  - Other: 46%

- For investment/portfolio allocation decisions:
  - Bank: 50%
  - Asset manager: 73%
  - Asset owner: 43%
  - Other: 50%

- For engagement with companies in which we invest:
  - Bank: 43%
  - Asset manager: 71%
  - Asset owner: 43%
  - Other: 38%

- For communication with investors or other stakeholders:
  - Bank: 57%
  - Asset manager: 68%
  - Asset owner: 57%
  - Other: 54%

Q7: In what way are forward-looking climate-related metrics used within your organization? Check all that apply.
Base: Respondents in financial services (n = 96); includes respondents from banks, asset managers, asset owners, and those from other financial services firms, including stock exchanges, index providers, insurance, and ESG ratings.
But fewer report using the metrics described in the consultation, and more often for monitoring than financial decisions.

### Forward-looking metrics used for decision making

<table>
<thead>
<tr>
<th>Metric Description</th>
<th>Use</th>
<th>Monitoring</th>
<th>Portfolio positioning</th>
<th>Financial decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implied temperature rise or warming potential</td>
<td></td>
<td>15%</td>
<td>27%</td>
<td>43%</td>
</tr>
<tr>
<td>Climate value-at-risk</td>
<td></td>
<td>15%</td>
<td>26%</td>
<td>29%</td>
</tr>
<tr>
<td>A forward-looking estimate of carbon-related assets in each portfolio</td>
<td></td>
<td>15%</td>
<td>23%</td>
<td>33%</td>
</tr>
<tr>
<td>Unpriced carbon cost</td>
<td></td>
<td>15%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>Carbon earnings at risk</td>
<td></td>
<td>15%</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>Amount of apportioned emissions over/under a 1.5°C alignment trajectory</td>
<td></td>
<td>5%</td>
<td>16%</td>
<td>24%</td>
</tr>
<tr>
<td>The proportion of underlying investments that are aligned with the EU Taxonomy</td>
<td></td>
<td>18%</td>
<td>23%</td>
<td>31%</td>
</tr>
</tbody>
</table>

**Q10:** Please select any metrics your organization uses for financial decisions, monitoring, or to consider the positioning of your total portfolio with respect to the transition to a lower-carbon economy.

*Base: Respondents in financial services (n = 96); includes respondents from banks, asset managers, asset owners, and those from other financial services firms, including stock exchanges, index providers, insurance, and ESG ratings.*
A minority of firms currently disclose the consultation metrics, with more planning to do so in the future

**Disclosure of metrics**
Those using forward-looking metrics

<table>
<thead>
<tr>
<th>Metric Description</th>
<th>Currently disclose</th>
<th>Planning to disclose</th>
<th>No plans to disclose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implied temperature rise or warming potential</td>
<td>12%</td>
<td>33%</td>
<td>55%</td>
</tr>
<tr>
<td>Climate value-at-risk</td>
<td>12%</td>
<td>36%</td>
<td>52%</td>
</tr>
<tr>
<td>A forward-looking estimate of carbon-related assets in each portfolio over the course of planning horizon</td>
<td>10%</td>
<td>31%</td>
<td>59%</td>
</tr>
<tr>
<td>Unpriced carbon cost</td>
<td>10%</td>
<td>24%</td>
<td>66%</td>
</tr>
<tr>
<td>Carbon earnings at risk</td>
<td>11%</td>
<td>25%</td>
<td>64%</td>
</tr>
<tr>
<td>Amount of apportioned emissions over/under a 1.5°C alignment trajectory</td>
<td>9%</td>
<td>27%</td>
<td>64%</td>
</tr>
<tr>
<td>The proportion of underlying investments that are aligned with the EU Taxonomy</td>
<td>7%</td>
<td>40%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Q12: Which of the following metrics does your organization disclose?
Base: Respondents using consultation metrics (n = 162); 22% do not use such metrics and were excluded from the analysis
Half of respondents say that disclosure would be worth the effort with further standardization of metrics

Current perceptions of disclosure for forward-looking metrics

- The benefits will outweigh the challenges if there is further standardization of metrics: 26% Investment/asset mgmt, 53% Finance, 50% Sustainability, 52% Other
- The challenges outweigh the benefits: 21% Investment/asset mgmt, 37% Finance, 27% Sustainability, 13% Other
- Challenges are proportionate to the benefits: 10% Investment/asset mgmt, 17% Finance, 6% Sustainability, 11% Other
- The benefits outweigh the challenges now: 26% Investment/asset mgmt, 11% Finance, 17% Sustainability, 24% Other

Q18: How do you currently view disclosure for forward-looking climate-related metrics?
Base: Respondents (n = 209)
Respondents agreed with a wide variety of current challenges with using and disclosing forward-looking metrics...

Challenges faced using or disclosing forward-looking metrics
Financial services only

- Concerns around reliance on assumptions required to derive future company-level emissions (77%)
- Concerns around reliance on assumptions and future uncertainty (74%)
- Difficult to understand or opaque metric calculation methodologies (72%)
- Lack of/poor quality GHG emissions data (68%)
- Lack of comparable metric calculation methodologies (66%)
- Resource constraints (65%)
- Lack of/poor quality of other data (non-GHG emissions) (65%)
- Distrust in the reliability of outcomes (61%)
- Metrics are useful internally but not suitable for public disclosure (55%)

Q35: Which challenges has your organization faced in using or disclosing forward-looking metrics?
Base: Respondents in financial services (n = 96): includes respondents from banks, asset managers, asset owners, and those from other financial services firms, including stock exchanges, index providers, insurance, and ESG ratings
...and noted that most could be useful with improvements to methodology

Forward-looking metrics could be useful with improvements to methodology

- The proportion of underlying investments that are aligned with the EU Taxonomy: 53%
- Climate value-at-risk: 52%
- Amount of apportioned emissions over/under a 1.5°C alignment trajectory: 50%
- Implied temperature rise or warming potential: 49%
- Carbon earnings at risk: 49%
- Unpriced carbon cost: 48%
- A forward-looking estimate of carbon-related assets in each portfolio over the course of planning horizon: 47%
- Other: 43%

Q26: Which of the following metrics do you find useful for financial decision-making? Select (1) useful now, (2) could be useful with improvements to methodology, (3) not useful

Base: Respondents (n = 209)
Improvements should focus on transparency, standardization, and comparability as well as improved emissions data

Factors that would improve usefulness of forward-looking metrics

Q37: Which of these changes would improve the usefulness of forward-looking disclosures for you?
Base: Respondents (n = 209)
Almost all would like methodology to cover Scope 1 and 2 emissions, with many interested in Scope 3 coverage.

Q22: Which GHG emissions scopes should be covered in an ideal forward-looking methodology for metrics related to emissions? Select all that apply.

Base: Respondents in financial services (n = 96); includes respondents from banks, asset managers, asset owners, and those from other financial services firms, including stock exchanges, index providers, insurance, and ESG ratings.

Scope 3 emissions should be included for financial holdings in sectors where Scope 3 constitutes a significant portion of emissions, such as Oil, Gas and Autos.

GHG emissions data not considering scope 3 would not paint a full picture of the company's progress on Paris alignment.

Scope 3 could be covered with the caveat that current Scope 3 data is not very granular and largely amounts to an industry-level coefficient. However, this type of coefficient is important in showing how certain sectors have enormous Scope 3 footprints compared to others.

Scope 3 is challenging given the inconsistent reporting and difficulty in accurate measurement compared to Scope 1 & 2 - but it is critical for certain sectors such as autos, oil & gas.