



International Actuarial Association
Association Actuarielle Internationale

27 January 2021

Task Force on Climate-related Financial Disclosures
120 Park Ave, New York,
NY 10165
United States of America

Dear Task Force Members

Forward-looking Financial Sector Metrics – Consultation October 2020

In response to the TCFD Consultation Paper on financial sector metrics published in October 2020, I am pleased to submit comments and suggestions on behalf of the International Actuarial Association (IAA).

Our comments allude to topics included in the consultation document and accompanying survey. We have not completed the survey on behalf of the IAA as this is more appropriate for individual actuaries and the firms for whom they work.

These comments have been prepared by the IAA Executive Committee's Sustainability Reporting Task Force.

If you wish to discuss any of our feedback please do not hesitate to contact Micheline Dionne, Chair of the Task Force, via the [IAA Secretariat](#).

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'JK', written over a light blue horizontal line.

Jan Kars
President

The International Actuarial Association

The International Actuarial Association (IAA) represents the global actuarial profession. Our seventy-three Full Member actuarial associations, listed in [Appendix A](#), represent more than 95% of all actuaries practising in over 115 countries around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with international bodies on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

The IAA is pleased to provide input to the Task Force on Climate-related Financial Disclosures on this important consultation. These comments have been prepared by the IAA Executive Committee's Sustainability Reporting Task Force and their release approved by the IAA Executive Committee. The current members of the Executive Committee and its Sustainability Reporting Task Force are listed in [Appendix B](#).

Actuaries, as financial risk managers who typically evaluate financial risk over long horizons, are keen to play a role in sustainable development and the public good. Accordingly, actuaries are very familiar with the issues of measuring and communicating the potential impact of risks using a variety of tools. Some of these include Value-at-Risk (VaR), Tail Value at Risk, stochastic models, stress and scenario testing, etc. Actuaries have considerable experience in dealing with near term volatility of estimates of financial variables which extend over long periods of time.

The IAA has recognized climate-related risk assessment, management and disclosure as a main strategic initiative and believes it can contribute to the future deliberations of the TCFD in these areas, recognising that any measures need to be practical, understandable and reliable.

IAA comments are as follows:

- (1) The IAA congratulates the TCFD in carrying out this consultation, which both clearly summarises the current developments in climate related financial metrics and promotes continued necessary research into this area. The IAA looks forward to the TCFD feedback from this consultation, which should provide further valuable information and guidance for those concerned with producing such metrics.
- (2) The IAA congratulates the TCFD for seeking to improve climate-related risk disclosures in the financial sector and address some of the shortcoming of carbon footprint metrics.
- (3) The IAA notes that disclosing risks to end-consumers is not a trivial task. Attempts to disclose financial risks to end-consumers have focused on simple measures. We suggest that there are multiple audiences for climate-related risk disclosures. If the TCFD is interested in disclosures that are useful for end-consumers, separate research drawing on the existing body of knowledge in behavioural finance may be appropriate.
- (4) End-consumers are often represented by experts like regulators, rating agencies and advisors or asset owners acting in a fiduciary role on behalf of the end-customer. We suggest that the level of input from those representatives of end-consumers be an important consideration when analysing the results of this TCFD consultation.
- (5) The IAA supports research into metrics such as Climate VaR and Implied Temperature Rise (ITR). At the portfolio level, they could have an intuitive appeal to experts who advise

or assist consumers of financial products, if they can reliably encapsulate the portfolio's climate risks and features. This is clearly not necessarily the case at present, as the examples in your consultation document illustrate. So, their use should be accompanied by appropriate qualifications.

Metrics in this field may be more relevant to, and need to serve, the purpose of assisting asset owners and asset managers in managing exposure to climate risk, product design, and labelling.

These metrics may also assist their clients and beneficiaries with investment choices.

To be valid in this context, metrics need to be calculated reliably, and based on projective datasets that are widely available and generally accepted as credible. Related disclosures therefore need to clearly highlight the uncertainty embodied in projections, both in terms of the amounts of any potential impacts, and in terms of the timeframes in which significant potential changes to expectations may occur.

At the same time, metrics aimed at supporting consumer investment decisions most likely need to be reported in a way that distinguishes more strongly between investment alternatives. The use of a simple numerical scale – as in the ITR – cannot be expected to adequately communicate to consumers the very major differences in severity between the corresponding climate outcomes, as projected by scientific bodies such as the IPCC.

It is to be expected that new datasets may need to be made available (or mandated) if the purpose of making projections and calculating metrics is to be properly fulfilled. Research should consider the question in parallel with the points made below.

- (6) The IAA also observes, from efforts to disclose financial risk, that experts who advise consumers are more interested in the underlying exposures (like allocations to specific asset classes in the case of financial risk), than in summary metrics. That information allows such experts to make their own judgements on the level of risk and to make consistent comparisons between organisations. On that basis disclosure of the available information on inputs into Climate VAR and ITR metrics may be more useful to that audience.
- (7) The financial sector is of course reliant on the TCFD disclosures made by the companies in which it invests, in order to assess its own exposure. The IAA supports the measures being made by governments and regulators around the world to strengthen compliance. However, whilst substantial progress has been made, presently there may only be limited relevant information across significant parts of portfolios. The related metrics, along with any portfolio metrics which depend on them, should be considered as work in progress.
- (8) TCFD disclosures by companies do not necessarily include data relating to longer term financial implications and risks so the financial sector is reliant on external models. As the NGFS Climate Scenarios June 2020 paper noted, these may not pickup extreme events and potential feedback loops, which could significantly underestimate risks and overstate the possible timeframes for further deterioration.
- (9) Reliance on availability of data on underlying investments means that changes to disclosure recommendations for the financial sector need to move consistently with changes to disclosures by companies.

- (10) The IAA considers that further research and development of relevant models and their data sources is necessary, and should be subject to periodic validation by methods such as back-testing.

In addition, the IAA believes that specific 'outlier' scenarios might be specified, perhaps by the TCFD itself, in order to permit the analysis of 'plausible but unlikely' scenarios in a manner consistent with solvency analysis in the financial sector.

- (11) The IAA suggests that research should also continue into improving underlying datasets, as well as portfolio parameters that can be ascertained more objectively. These may assist external parties in assessing risks using their own models, either at the portfolio level or for industry sectors, and ultimately for significant individual companies.

These datasets may include emissions data subdivided by scope category, targets, main sectors and values, and main holdings. The IAA recognises that emissions data can be affected by changes in methodologies, but trends in such parameters can nevertheless provide useful information and help to differentiate between companies in the financial sector.

- (12) These metrics also provide targets against which both financial sector organisations and the companies in which they invest can measure their progress. As such, it is essential that progress against the metrics is aligned with the strategic objectives of organizations, and minimise the possibilities for the metrics to be manipulated by actions inconsistent with such objectives. In this connection, despite the attractions of these concepts, it needs to be borne in mind that the complexities underlying the calculation of Climate VAR and ITR may make it difficult for organisations to translate desired changes in these parameters into detailed strategies and actions.

- (13) It is an essential part of the work of actuaries to use sophisticated models and scenario analysis in advising on the solvency of insurance companies, large pension funds and many banks. Consequently, climate-related metrics are increasingly a part of this analysis and may be required by regulators. Such analysis needs to be carried out using defined methodologies but does not need to be simplified. The need to demonstrate solvency in this way does not of course arise in relation to investment managers or "defined contribution" pension funds and, in these categories, users of these services or products may be assisted by parametric portfolio descriptions.

- (14) In any event, increasing public interest in how institutional funds are invested implies a need to be able to clearly analyse and communicate both climate and financial implications. While the IAA argues for the need for further research, our view is that research should occur in parallel with efforts to improve disclosure. Increased availability of disclosure to consumers of financial products may increase the demand for further disclosure and help clarify the disclosures that will be useful.

Appendix A

Full Member Associations of the IAA (73 members)

January 2021

Asociación Centroamericana de Actuarios (ACEA)
Caribbean Actuarial Association (Caribbean)
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Actuaries Institute (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Institut des Actuairens en Belgique (Belgique)
Aktuarsko Drustvo U Bosni I Hercegovini (Bosnia and Herzegovina)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuairens (Canada)
China Association of Actuaries (China)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Asociación Colombiana de Actuarios (Colombia)
Institut des Actuairens de Côte d'Ivoire (Côte D'Ivoire)
Hrvatsko Aktuarsko Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuairens (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Actuarial Society of Ghana (Ghana)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Islenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari and Ordine degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
Actuarial Society of Kazakhstan (Kazakhstan)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktuaru Draugija (Lithuania)
Macedonian Actuarial Association (Macedonia)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuairens (Morocco)
Het Koninklijk Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)

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Nigeria Actuarial Society (Nigeria)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuaruszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Asociația Română de Actuarial (Romania)
Russian Guild of Actuaries (Russia)
Udruženje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spoločnosť Aktuarov (Slovakia)
Slovensko Aktuarsko Društvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Institute of Actuaries of Korea (South Korea)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Actuarial Association of Sri Lanka (Sri Lanka)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaire (Switzerland)
Society of Actuaries of Thailand (Thailand)
Actuarial Society of Turkey (Turkey)
Association of Consulting Actuaries Limited (United Kingdom)
Institute and Faculty of Actuaries (United Kingdom)
ASPPA College of Pension Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)

Appendix B

Members of the Executive Committee

(January 2021)

Jan Kars	President
Roseanne Harris	President-elect
Tonya Manning	Immediate Past President
Alf Gohdes	Member
Al Beer	Member
Charles Cowling	Member
Estella Chiu	Member
David Dubois	Member
Jacques Tremblay	Member
Jeremy Brown	Member
Lisa Wade	Member

Members of the Executive Committee's Sustainability Reporting Task Force

(January 2021)

Micheline Dionne (Chair)	Canada
Andrew Chamberlain	United Kingdom
Tim Furlan	Australia
Dieter Köhnlein	Germany
Paul Meins	United Kingdom
Pentti Soininen	Finland
Fred Rowley	Australia
Ernst Visser	Netherlands
Stuart Wason	Canada