



NORGES BANK
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Feedback on PRI Signatory Consultation: Incorporating TCFD Recommendations into the PRI Reporting Framework

We refer to the consultation of the signatories to the PRI principles dated 15 August 2017. Climate change is one of our focus areas and the development of a shared, rigorous framework for the reporting of climate risks across sectors and markets is a key priority. In addition to greenhouse gas emissions, we complement our risk- and investment assessments with broader environmental information. NBIM welcomes the work of the Task Force on Climate-related Financial Disclosures (TCFD) to promote effective and comparable disclosures to improve the understanding of the global financial system's exposure to climate-related risk.

As a PRI signatory, we are happy to give feedback on how the TCFD recommendations may be adapted to PRI's own reporting framework. We envisage that investor reporting on the basis of the Task Force recommendations will evolve over time as knowledge, methodologies, and data develop. In this letter, we outline our general views on the adaptation of the TCFD recommendations to PRI signatory reporting at this stage. In the appendix, we comment on selected proposals in detail.

NBIM supports the development and alignment of standards and methodologies, as well as initiatives to improve the disclosure of consistent and objective data on current and future greenhouse gas emissions. Although we see the potential benefit of establishing the PRI platform as a central repository for TCFD-related reporting, we also think it is worth bearing in mind that the TCFD recommendations aim to integrate material climate risk matters in financial filings. Moreover, as the TCFD also specifies in their final report, the methodologies needed to collect and assess this data are still under development. The PRI proposal was circulated two months after the final recommendations were presented and NBIM is aware of several industry groups and other initiatives working on TCFD-aligned investor reporting, or closely related questions.

Should the PRI decide to pilot TCFD reporting, asking open-ended questions focused on context and processes may help investors communicate their climate-risk work, and be most suitable. Facing the challenge of climate change requires a multifaceted approach adjusted to the distinctive mandates of each investor. Similar to other strategic choices in investment management, many climate change approaches are best determined on an institutional level where fund mandates and operational constraints including tracking error and time horizon are known and will shape the choice. Funds themselves are best suited to discern potential paths to reducing climate risk befitting to each particular investor. As an example, strategies will vary between active and passive funds, universal and concentrated owners.



The PRI reporting framework should consequently take an approach to climate change reporting that encompasses the breadth of strategies available to address emissions and other climate risks. The reduction of emissions through divestment or adjustments to asset/sector class weighting are only two possible strategies among many. These strategies may be more suitable for targeted funds than for universal investors, for whom reduction is not possible in the same manner. In addition to direct actions such as divestment, indirect routes including engagement, voting and standard setting are relevant tools in this context. The wording of questions should reflect the options available.

In terms of metrics, we in principle welcome the push into quantitative disclosures to triangulate qualitative information. At the same time, this is also an area where one should be careful to avoid defining key metrics too restrictively. In relation to the point above, an implicit assumption built into the proposal seems to be that there are climate-related data and tools available of the type and quality necessary to systematically make and report ownership decisions or portfolio outcomes reflective of climate risk outcomes. NBIM's experience with climate-related data has thus far not shown this, and we think there needs to be further progress in terms of developing data, methodologies, and tools to truly understand and correctly represent climate risk at the individual company and portfolio level. For this reason, we have prioritised data development and academic research to improve the understanding of the channels through which climate change risk and opportunities can affect investment risk and return.

For example, carbon footprinting is a well-established and rigorous metric integrated in our existing processes. Nonetheless, it is only one tool, and one that on a standalone basis may not exhaustively capture climate risk. Emissions data itself is backwards-looking, and provides no economic, social, strategic, or operational context. Since 2014, NBIM has analysed the greenhouse gas emissions from the companies in our equity portfolio and published this data in the fund's annual Responsible Investment report. In 2016, we calculated the carbon footprint of our fixed-income corporate bond portfolio for the first time. A key challenge in this exercise is the lack of standardised and comparable data in corporate reporting. As a result, our analyses are based on extensive use of modelling by specialised, third-party data providers. If not contextualised or triangulated with other information, such metrics and analyses could be misleading and highly sensitive to non-streamlined methodologies.

Other climate metrics and methodologies such as scenario testing are less well-established. First, scenario testing is not principally a forecasting exercise, but rather a tool to analyse sensitivity to a wide range of outcomes in the context of firm practices and processes. Consequently, outcomes of such scenario tests will as a starting point be firm-specific. Second, 2-degree scenario testing for investors does not have readily applicable or standardised methodologies, rests on a diverse range of assumptions, and will differ across climate risks. The challenge is thus both on the raw data and methodology side. As a result of these methodological shortcomings, the responses through a PRI questionnaire may not be easily comparable and have a high degree of subjectivity.

The integration of climate risk into risk disclosures must mirror the realities of risk management in financial institutions. Climate risk is a series of diverse and multi-dimensional risks which require unique expertise, data, and tools to identify, assess, and manage. Yet there are inherent differences in measuring and managing investment-specific risks such as tracking error, portfolio-, currency- or market risk, and climate-related risks. What is important is that climate risk is sought identified, assessed and managed where relevant and at relevant levels of the organisation. Against this background we welcome the PRI's ambition to contribute towards a better understanding of how signatories can provide TCFD-related climate risk disclosure. We assume that the PRI questionnaire will be subject to further



assessment, signatory input, and revision as knowledge and practices develop, and metrics and data become more rigorous. We look forward to engaging with you further on this important topic, and would gladly meet to discuss this initiative further.

Yours sincerely

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Appendix: Feedback to specific sections

As a general point on clarity, the proposal would have done well to clarify which aspects of guidance are crafted from the PRI, and which are taken directly from the TCFD recommendations.

Governance (p. 5-6)

- SG07.2.CC.B. While this question mimics the wording used under recommendation b, the descriptive guidance from TCFD is quite different, with its focus on organisational structures and processes, including information transmission. PRI could consider whether the wording chosen "indicate how you **execute** these responsibilities" captures the intent of TCFD guidance.

Strategy (p. 7-11)

- Strategy A - SG13.1. New indicator C and D. There is a discord in the wording between the two new indicators. Whereas indicator C is clear and asks to describe such processes used to identify **risks and opportunities** that **could** have a **material** impact, indicator D speaks of "relevant climate-related **issues**." Are these the same material risks and opportunities as those mentioned in indicator C, or others? If these issues are the same, the question should make the link clear.
- Strategy C. Refer to general comments in our letter related to the feasibility of scenario analysis at portfolio level.

Risk (P. 12-13)

- As discussed in the strategy and governance section in our letter, when it comes to managing climate risk (ref new indicator E), the supplemental guidance for asset owners on p. 12 of the consultation document implies that active management of portfolios and portfolio positioning with respect to the transition to a lower-carbon economy is the principle way investors can manage climate-related risk. This is simply not the case for the many investors who do not have an active mandate. There needs to be room for other types of activities, such as active ownership and standard setting, which can also be relevant and effective methods of managing climate risks.

Metrics & Targets (p. 14-18)

- The SG new indicator G under Metrics and Targets provides useful guidance in the table, and will help facilitate more concrete information (as opposed to a free text only format). At the same time, it is important to remember that the availability of good data and metrics related to climate risk for investors is still limited.
- **Disclosing** GHG emissions via carbon footprinting or carrying out scenario testing, among other tick boxes in the answer section to SG13.3, should not be confused with **managing** emissions risks and opportunities. If the focus is on disclosure and measurement, the SG13.3 indicator should be reworded so that it says "measure/disclose/assess" rather than "manage", which is something different altogether.
- If indicator SG 13.3 is to include "tools used to **manage** emissions risks and opportunities" rather than "measure/disclose/assess" as suggested above, there should be options related to active ownership, dialogue/engagement and standard setting/policy engagement available to passive investors/managers who cannot set emissions reduction targets or otherwise shift their portfolios away from high-emitting companies and sector.