AMERICAN ACADEMY *of* ACTUARIES

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June 11, 2021

Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549

Re: Request for Public Input on Climate Change Disclosures

Dear Chair Gensler,

The American Academy of Actuaries,[1] Actuaries Climate Index/Actuaries Climate Risk Index (ACI/ACRI) Work Group, and the Climate Related Financial Disclosures (CRFD) Work Group appreciate the opportunity to comment on the Securities and Exchange Commission's (SEC's) request for public input on climate change disclosures. Actuaries are focused increasingly on risks associated with climate change—both in our roles as risk managers and in our roles in developing estimates of insurance premiums and reserves. We commend the SEC for its efforts to improve awareness of and responsiveness to climate risks.

ACADEMY RESEARCH ON CLIMATE CHANGE AND CLIMATE RISK DISCLOSURES

In addition to perspectives gained from our volunteers' working experience and expertise, the Academy has also spent considerable time in recent years on two research projects that have provided us additional insight into changing climate risks and the need for appropriate regulatory deliberations with respect to climate-related financial risk in the insurance sector.

Actuaries Climate Index and Actuaries Climate Risk Index

First, the Actuaries Climate Index® v 1.1, created and maintained by four North American actuarial associations, including the Academy, documents changes in extreme occurrences of six climate-related elements of weather and sea level. The index, a measure summing the observations across all of the elements, covers the U.S. and Canada, and breaks results down for 12 regions, seven in the U.S. While the index generally shows increasingly extreme climatic conditions since the end of the index reference period, 1961–1990, it also reveals the variability in those increases—both by element and by region. In 2020, the Academy published a preliminary model, the Actuaries Climate Risk Index v 1.0 providing estimates for property

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

losses during the period 1991–2016 that could be attributed specifically to changing climate, controlling for changes in exposure.

Climate-Related Financial Disclosures

Second, the CRFD Work Group of the Academy has been examining climate disclosures as they apply specifically to insurers. In the first part of that research, presented to the National Association of Insurance Commissioners (NAIC) in December 2020 and January 2021, we examined the climate-related financial disclosures currently being completed by about 70% of the insurance industry in response to the NAIC Climate Risk Disclosure Survey.[2] That survey consists of nine Yes/No questions, with eight narrative responses required to elaborate. In the second part of that research, with results expected by August 2021, we are assessing options for moving forward with improved disclosures.

Our research to date has revealed several characteristics of the disclosure protocol in place for insurers since 2010:

1. Insurers have generally been increasing their Yes answers, indicating greater awareness of and responsiveness to climate risks;
2. There exists substantial variability in the narrative responses both by type of insurance product and by size of the company;
3. It is difficult to extract information from the narrative responses with which to create benchmarks or otherwise compare the performance of any individual company to others; and
4. A relatively small proportion of insurers—less than 30% of companies—are responding robustly to the current survey.

As a result of our work with the NAIC Climate Risk Disclosure Survey, we have identified several key tasks to be accomplished in the second part of our project, based in part on a comparison of the current NAIC survey with the requirements of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Carbon Disclosure Project (CDP) survey:

1. Examine two gaps:
    a. Gap between most robust survey responses and the requirements of TCFD and/or CDP
    b. Gap between most robust and less robust survey responses
2. Assess different possible methods of encouraging more robust, informative responses from insurers, including:
    a. Careful construction and testing of questions
    b. More guidance for preparers
    c. More Yes/No and/or multiple-choice questions

[2] http://www.insurance.ca.gov/0250-insurers/0300-insurers/0100-applications/ClimateSurvey/upload/QUESTIONS-AND-GUIDELINES-CLIMATE-RISK-SURVEY-REPORTING-YEAR-2019_MPrevis-_.pdf

SPECIFIC COMMENTS ON THE QUESTIONS POSED

Based on the work completed on these research projects, and insights gained from our working experiences as actuaries, we offer the following select specific comments to the SEC's *Questions for Consideration*.

(2) Should disclosures be tiered or scaled based on the size and/or type of registrant)?
The Academy's work related to the NAIC Climate Risk Disclosure Survey relates specifically to insurance companies and can be extrapolated to non-insurers that retain insurable risks, so our insights are more specific to those entities. While climate risk exists for all types of entities, the profile for each entity and the emphasis is different, particularly by industry. That leads to the expectation that disclosures will be scaled naturally by entity.

(3) What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission?
If regulators and industry participants agree on a disclosure framework, that should be respected, but additional information might be required. From our work on the NAIC Climate Risk Disclosures, we notice a lack of comparability (which the NAIC Climate and Resiliency (EX) Task Force is seeking to remedy). If there is a forum for gaining consensus on some specificity of the disclosures, that may very well lead to comparability across companies. The disadvantage is that the comparability and agreement may be at a very summarized level, giving good initial insights, but over time they may not provide useful information.

(4) What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?
For insurers with U.S. entities within the SEC's jurisdiction, the NAIC Climate Risk Disclosure Survey could be a base; if the SEC is asking for information beyond that provided to the NAIC survey, it should be made clear that the information required is additive to that already provided.

(5) What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?
Our research has revealed difficulties that arise from the narrative nature of the NAIC's current Climate Risk Disclosure Survey. The TCFD guidelines are similarly open-ended, allowing for highly variable narrative and/or quantitative responses. Frameworks that include more Yes/No and/or multiple-choice questions are more likely to provide more robust information in comparable formats.

(9) What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards?
Comparability is a potential advantage. The disadvantage is that the baseline may be so high-level that no real information is provided. In addition, there is geographical diversity of types and impacts of climate that will differ around the world. The Actuaries Climate Index reveals significant variation in changes in climate-related conditions in different regions within the United States and Canada. Between the two countries, there are important differences in data availability. Extrapolating these differences to global regions means the wide range of climate impacts and data issues would have to be appropriately accounted for under an international framework.

(13) How should the Commission craft rules that elicit meaningful discussion of the registrant's views on its climate-related risks and opportunities? What are the advantages and disadvantages of requiring disclosed metrics to be accompanied with a sustainability disclosure and analysis section similar to the current Management's Discussion and Analysis of Financial Condition and Results of Operations?
Because climate risks might require extended time horizons, these extended horizons might pose challenges in identifying the best ways in which to estimate the risks that far into the future. Our expectation is that such projections would be heavily caveated and may be of questionable value as we go further and further out into the future. One way to gain insight without requiring projections that might be of limited value would be to ask insurers to simply provide information on what tools they think are helpful in projecting that far out rather than trying to quantify the impacts. The Actuaries Climate Risk Index provides one tool that might be adapted by insurers to estimate the impact of changing climate risk on losses. Calling attention to the need to find or develop tools, internally or externally, and generating responses that might be used to generate a list of frequently used sources, might be very helpful.

Further, a disclosure and analysis discussion would require information on risk identification and prioritization. It might be helpful if the SEC pointed in the direction of reliable and useful sources of information, and perhaps in the direction of guidance on future trends. If the discussion is to include an assessment of the impact of climate change on existing risk factors, some more guidance on ways in which to assess these impacts with qualitative information, prior to the availability of systematic scenario analysis or stress testing, might be helpful.

(14) What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?
For private companies that have U.S.-based legal entities, the NAIC Climate Risk Disclosure Survey will be available for such entities.

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If you would like to have a further discussion on our comments or if you have additional questions, please contact the Academy's Director of Public Policy Craig Hanna at [redacted].

Respectfully submitted,

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