Climate-Related Disclosures for Asset Managers: **Accelerating ESG and TCFD Compliance with Process Orchestration**

Executive Summary

Climate change presents material risks as well as new opportunities for companies [1, 2]. Shareholders and investors must know about them to make more informed decisions. Towards this end, regulators have already asked, or plan to ask, companies to comply with climate-related financial disclosures.

As the world moves towards climate goals like the 2050 net zero target, asset managers are in a unique position to nudge their vast investment ecosystems towards better sustainability practices and climate-related disclosures. But they also face unique challenges in climate-related planning and compliance [3].

This white paper analyzes the climate reporting standards that asset managers must use, the compliance challenges they face, and the information technology (IT) strategies like process orchestration that can help.

Climate-Related Financial Disclosures for Asset Managers

Legally mandated climate-related disclosures are becoming the norm [4, 5].

For example, the United Kingdom (U.K.) started requiring such information through a 2022 amendment to the Companies Act [6, 7]. Large companies and financial firms with an annual turnover of more than £500 million and more than 500 employees must comply starting in 2023 [8].

Asset managers that satisfy these criteria must disclose their climate-related exposure to their shareholders. Other asset managers may voluntarily disclose it to help their investors make data-driven decisions. Either way, climate disclosures are becoming important to asset managers.

The main difficulty is that their climate-related risks, opportunities, strategies, and metrics are all intimately tied to those of all the companies in their investment chains. The other difficulty is that British companies must follow the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)[9]. So, understanding the TCFD standards is crucial for asset managers.

The TCFD Standards

Noting that climate change represents a systemic risk to the global economy, the TCFD set out to create recommendations for climate-related financial disclosures. These can help investors and other stakeholders understand climate-related risks and opportunities [9, 10].

The TCFD standards consist of four thematic areas and recommended disclosures for each.

Each disclosure is accompanied by a set of general guidelines. Some sectors, including asset management, have additional guidelines. Companies are recommended to follow these guidelines — spread across the recommendations report, the implementation guidance, and the metrics guidance — as best practices [2, 12, 13].

Recommendations and Supporting Recommended Disclosures

Source: Financial Reporting Council [11]

Governance

Disclose the organization's governance around climate-related risks and opportunities.

Recommended disclosures

- Describe the board's oversight of climate-related risks and opportunities.
- Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

Recommended disclosures

- Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
- Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
- Describe the resilience of the organization's strategy, and financial planning.
- Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

Recommended disclosures

- Describe the organization's processes for identifying and assessing climate-related risks.
- Describe the organization's processes for managing climate-related risks.
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended disclosures

- Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
- Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the relate risks.
- Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

TCFD Challenges Asset Managers Face

Obtaining and analyzing the TCFD disclosures of investee companies present several challenges for asset managers.

Complexity of Climate Planning

For climate-resilient portfolio planning, the governance, strategic, and risk management plans of investee companies are crucial. Asset managers need to assess those plans, run scenario analyses, and form their own plans based on the TCFD recommendations.

None of that is simple, which is why only 63% of asset managers globally were reporting any climate information in March 2022 and as many as 44% of them were not conducting any scenario analyses at all [3].

Data Unavailability Problems

To make smart decisions, asset managers need deep visibility into the climate-related aspects of their investment chains.

But many companies lack mature climate disclosure practices. According to a 2022 TCFD global asset managers survey, 65% of them said insufficient information from companies was their biggest challenge [3]. Other surveys revealed “a lack of forward-looking disclosures” across the industry [14].

For now, every asset manager will have to devise its own particular methods to get the necessary third-party data.

Data Isolation

Every company in a fund, general partner in a fund of funds, and even a team or department within a company has a natural organizational boundary that inherently isolates it. Data flow across organizations or functions is not prevalent, even for compliance functions like due diligence and third-party risk management. The detailed data needed for climate disclosures too is similarly locked in silos within and across organizations.

Data Analysis Issues

Data quality, inconsistency, lack of common formats, and varying data interpretations are other challenges. Most of the disclosures consist of free-form text rather than more structured formats like standardized questionnaires. Due to so much variation in report structures, they are not easy to analyze.

So, asset managers have to dedicate resources and time to analyze them manually, and 54% of them say lack of resources is a challenge [3].

Variety of Metrics

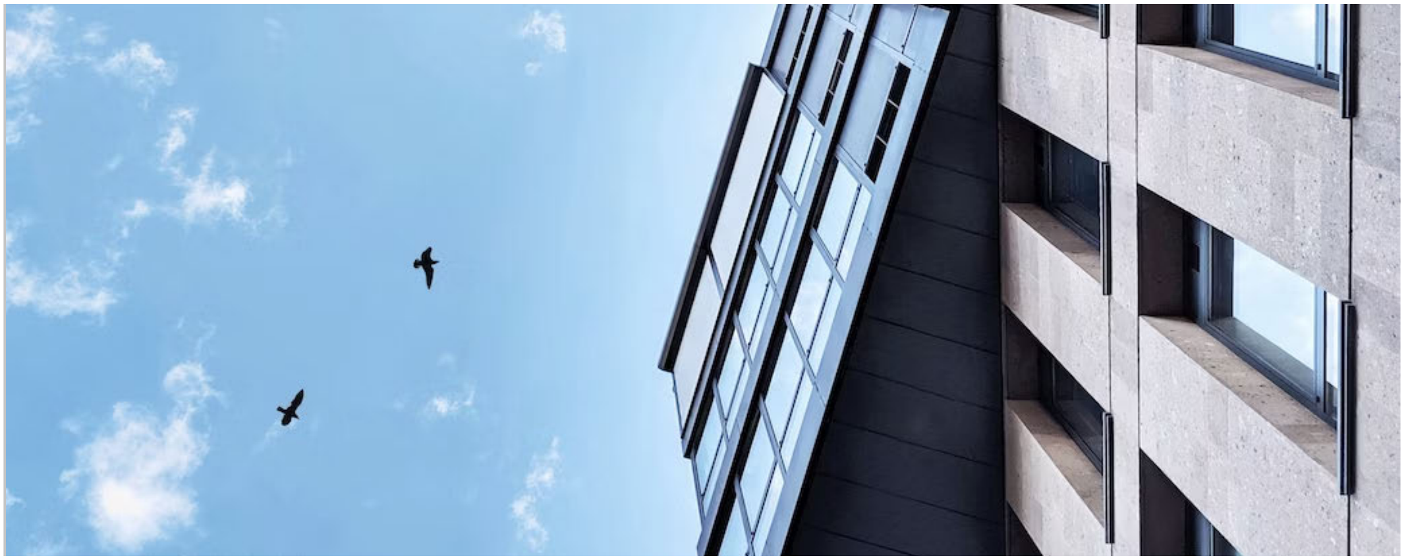
Climate reporting is still evolving, and different metrics have been recommended at different times. Staying up to date with constantly changing standards can be challenging.

For example, the TCFD recommended reporting weighted average carbon intensity (WACI) for some years. But its latest guidance recommends using the Partnership for Carbon Accounting Financials (PCAF) standards, which use value-based financed emission metrics [12, 13, 16].

The lack of standardized methodologies to measure metrics is a challenge for 57% of asset managers [3]. In addition, there are currently few climate risk models designed for investment portfolios.

Lack of Real-Time Data

Many fund managers have to make investment decisions frequently, sometimes even daily, depending on their investment goals [14]. However, climate disclosures and metrics are typically reported just once every quarter or year. This prevents fund managers from considering immediate realities in their investment decisions and introduces many uncertainties to their climate planning.



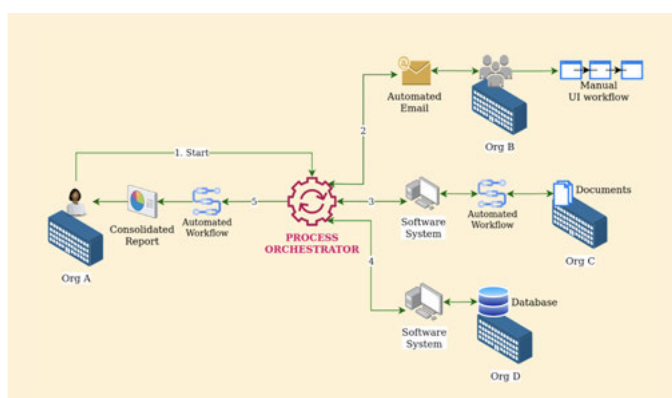
The Solution: Automated Process Orchestration for Climate-Related Financial Disclosures

These challenges currently prevent companies and investors from using climate reporting to their advantage. But IT approaches like process orchestration and workflow automation can help asset managers address them.

Understanding Process Orchestration

Process orchestration streamlines business processes by using specialized software to execute and monitor them from start to finish. The software is responsible for coordinating all the activities, data, decision-making, and communications between all the participants and technologies to achieve the desired outcome [17].

The sections below explore process orchestration use cases relevant to asset managers for ESG and climate-related reporting.



Example process orchestration across multiple organizations and business processes

Use Case: ESG Reporting

A manual ESG evaluation process typically proceeds like this: A fund manager uses email requests and ESG forms to collect the ESG metrics of all their portfolio companies. Next, analysts manually extract relevant metrics and collect them in a shared spreadsheet. Finally, they aggregate and compare the spreadsheet's data to evaluate the companies.

Automated process orchestration streamlines such functions [18]. Here are a few examples of what it can do:

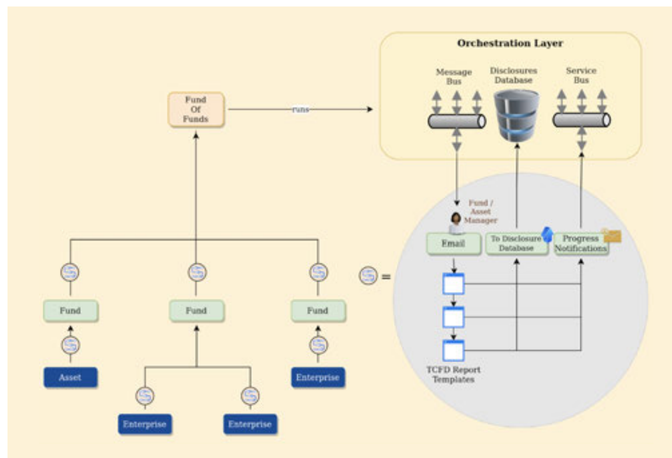
- **Automated launches**: Employees can set processes to start automatically according to a schedule or on demand, based on financial goals or regulatory timelines.
- **Data collection**: It sends email requests for data automatically to the target companies. Alternatively, it can automatically download their latest published reports.
- **Data extraction**: The system can automatically extract relevant data using business rules or robotic process automation. It can also initiate manual data quality checks.
- **Data analysis**: After extraction, the orchestrator runs automated data processing pipelines pre-programmed with all the rules, calculations, and charts required for disclosures based on TCFD best practices. It can also launch custom data analysis and visualization workflows required by an asset manager.Finally, it can notify human experts to do any necessary manual analysis, launching any custom workflows that they request.
- **Data reporting**: The system automatically stores the data analysis results, runs data queries required for the reporting and visualization engines, generates reports based on readymade regulation-compliant templates, updates reports and charts in real time whenever there are changes to the data, and exports reports to popular formats like PDF.

Use Case: Climate Disclosure Reporting for Fund of Funds

Process orchestration enables on-demand multi-level gathering and reporting of climate information.

For example, a fund of funds (FoF) collects data from its general partners at a fund level, and the general partners gather information from their assets at an asset level.

The orchestration layer sends emails to responsible parties at every level, guides them through the reporting steps, and tracks their progress. The completed disclosures are saved in the FoF asset manager's central disclosures database.



Example process orchestration across multiple organizations and business processes

Benefits of Process Orchestration for Climate-Related Disclosures

Process orchestration offers several benefits to asset managers.

Data Collection and Analysis Across Silos

Orchestration eases many of the data availability, isolation, and analysis challenges of asset managers [19]. It solves data isolation by integrating across organizations and departments.

Data availability is improved by automating data collection from all stakeholders and flagging any missing information for follow-up. In addition, orchestration enables standardization across formats and implements data traceability to prevent inconsistencies.

Ready for Upcoming Climate Regulations and Standards

The same process orchestration infrastructure can be adapted for other sustainability regulations, standards, and initiatives like:

- The EU's Corporate Sustainability Reporting Directive (CSRD) [20]
- The EU's Sustainable Finance Disclosure Regulation (SFDR) [4]
- Global Reporting Initiative (GRI) standards [21]
- The U.S. Securities and Exchange Commission's proposed climate disclosures [5]
- Sustainability Disclosure Standards from the International Financial Reporting Standards (IFRS) and its International Sustainability Standards Board (ISSB) [22]
- The Sustainability Accounting Standards Board (SASB) standards [23]
- The Climate Disclosure Standards Board (CDSB) standards [24]
- The CDP initiative [15]

The system includes methodologies and climate risk models tailored for investment portfolios based on best practices and industry expertise.

Real-Time Climate-Based Decisions for Portfolios

The ability to start process orchestration on any schedule and automatically collect the required data enables asset managers to use the latest real-time climate metrics in their day-to-day portfolio decisions.

Flexibility

Process orchestration adapts to an organization's existing processes and data, and can accommodate emerging climate-related policies like net zero by 2050. Third-party suppliers and vendors also find it flexible for their upstream climate-reporting obligations.

Repeatability

People and roles change, rendering manual processes non-repeatable in terms of quality and accuracy. But process orchestration's rules and templates make ESG reporting repeatable, predictable, comparable, and consistent — all characteristics expected by the TCFD's seven principles for effective disclosures [25].

Audit Trails

Unlike a manual process that relies on people's diligence to record their activities, process orchestration automatically generates the activity logs and versioned documents necessary for an audit trail. This is helpful for companies that must undergo independent auditing of their sustainability information starting next year [20]. In addition, audit trails help assure investors about the accuracy of a portfolio's current and forward-looking climate-related disclosures.

Cost and Sustainability

Process orchestration harnesses public cloud computing infrastructure's economies of scale to lower costs and improve sustainability [26].

Continuing and Wider Benefits from Process Orchestration of ESG

In addition, process orchestration benefits the overall ESG compliance posture in these ways:

- **Future-proof ESG compliance**: The global ESG compliance landscape is rapidly becoming more complex. In just the last three years, wide-ranging ESG regulations with complex obligations have come into force — like the EU's CSRD, Germany's Supply Chain Act, and the U.S.' Uyghur Forced Labor Prevention Act [20, 27, 28]. Many more are on the horizon [29].Like the climate disclosures, all these involve cross-organizational data collection and reporting. The same process orchestration infrastructure can be used for complying with them too.
- **Versatility**: Since third-party risk management and due diligence are cross-organizational concerns just like climate risks, companies that adopt process orchestration can reuse it to build versatile capabilities in those areas as well.
- **Assurance**: Automation brings better assurance of overall ESG posture in terms of coverage, accuracy, and objectivity.
- **Competitive advantages**: Identifying, managing, and documenting its risks makes an organization an attractive third-party supplier or vendor.

Due to these benefits, process orchestration is not just a useful tool for compliance but a strategic advantage for asset managers.

Certa Process Orchestration for ESG Reporting

Certa provides a versatile, future-proof platform that satisfies asset managers' ESG compliance needs. Key features include:

- A TCFD solution that enables partners and general partners to efficiently collect climate-related financial data across their entire portfolio, flag any missing data for follow-up, and generate ready-made reports.
- Methodologies and climate risk models tailored for investment portfolios based on best practices and industry expertise from a network of asset managers.
- Seamless multi-level data collection, reporting, and insights.
- Workflow automation and expertise across ESG standards, frameworks, and regulations.
- Pre-programmed automated data processing pipelines with all the rules, calculations, and charts required for disclosures based on TCFD best practices.
- Orchestration with data traceability and standardization across formats to prevent inconsistencies.
- Automated aggregation of data from disparate data sources.
- Automated compliance verification.
- Automatic updation of reports and charts in real time whenever there are changes to the data.
- Custom risk triggers and flagging to help measure disclosure requirements and timelines.
- Tracking for Scope 1, 2, and 3 emissions across the entire supply chain.
- Support for multiple standards — TCFD, SFDR, GRI and the UN Sustainable Development Goals (SDGs), etc.
- Quality control for data with automated remediation workflows.
- Reports on emissions across key metrics.
- Summarize and report disclosures to stakeholders using ready-made reporting templates and export them to formats like PDF.

Schedule a demo to learn more about ESG compliance and process orchestration from our experts.

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