

NGFS Series: Bridging Data Gaps – The Future of Climate Data

Quantitative Risk



Introduction



In continuation of our [first publication](#)¹ of the NGFS Series, summarising the climate scenarios and the underlying physical and transition risks, in this publication, our team at Grant Thornton is outlining the findings of the NGFS report on bridging climate-related data gaps.

In July 2022, the NGFS has published its [final report](#)² on bridging data gaps. Information has been provided to ensure the availability of reliable and comparable climate-related data across institutions around the globe. The report outlines the main challenges around reliable and consistent data availability, use and benefits of the NGFS repository, and policy recommendations.

The main data limitations are related to availability, reliability, and comparability. Regarding reliability issues, there is inconsistency of ESG ratings across providers, making available information on transition risks non-comparable across firms. In terms of interoperability of reporting frameworks, data issues need to be specific for emerging markets and developing economies, data scarcity, and limited disclosure of forward-looking information.

To overcome these challenges, there is need for development of global disclosure standards, taxonomies, and standardisation of sustainability information.

Development of methodologies and benchmark indicators are used to estimate the required data focusing on key performance metrics and methodologies around climate risks, such as the carbon footprint of financial institutions' portfolios and their exposure to physical risks.

The NGFS directory was designed to map climate-related data gaps and policy recommendations to bridge those gaps. We further investigate the NGFS Directory and how it can support the needs of the financial sector.

The main issues arise around biophysical impact, emissions, and geospatial data types, limiting the usability of physical vulnerability and transition sensitivity metric types. In order to overcome such challenges, there is need for on-going monitoring of the data sources, in order to enhance the quality of data. This is due to lack of relevant benchmarks and reliability on proxies. Additionally, the granularity issues relevant to geographical data and limitations regarding transition risk forward-looking data, is also noted.

¹: <https://www.grantthornton.com.cy/insights/quantitative-risk-articles/ngfs-series-climate-scenarios--a-range-of-plausible-outcomes/>

²: https://www.ngfs.net/sites/default/files/medias/documents/final_report_on_bridging_data_gaps.pdf

Initiatives & Challenges

Quality, availability, and comparability of climate data

Common trends for disclosures on sustainability and their contribution to greater data availability, comparability, and reliability have become apparent as a result of latest initiatives on four different fronts: **scope, content, location, and assurance**.

On scope

- The focus is on non-financial corporates for the disclosures with less extent to FIs in order to manage the high demand on sustainability information.
- Other disclosures at financial entity level remain at an early stage.

On content

- Certain performance indicators and calculations are often based on private standardization of policies.
- The use of different statistical identifiers into reporting/disclosures can lead in availability and comparability differences across companies.
- The growth of disclosures focus is based on national, regional and global frameworks.
- Segmentation of the data across the world, asset classes, and locations weaken the achievement of disclosures
- The main difference in approaches observed over the last year is the quality of the governance based on key performance indicators.

On location

- Connection between ESG matters and financials is becoming a pressing goal.
- Climate-related financial disclosures evolve around the implementation of Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

On assurance

- The Assurance requirements are an emerging part of the disclosure policies and regulation, but they are adequately developed.

Key Challenges:

- The interaction of the classification and frameworks within the developed as well as across developed and emerging economies.
- The greenwashing risks across the globe related to the net zero and transition targets.
- The need to consider certain issues of the Emerging markets and developing economies (i.e., concerns relate to the transition, position along global value chains (GVCs), the sensitivities of economic, industrial, and financial structures, the mitigation and adaptation in climate change for financing needs).
- Limited data availability for private companies and SMEs.
- Limitation of forward-looking information disclosures, targets, transition plans, Capex/investment plans consistency with transition plans, and position along with the pathways for carbon reduction.

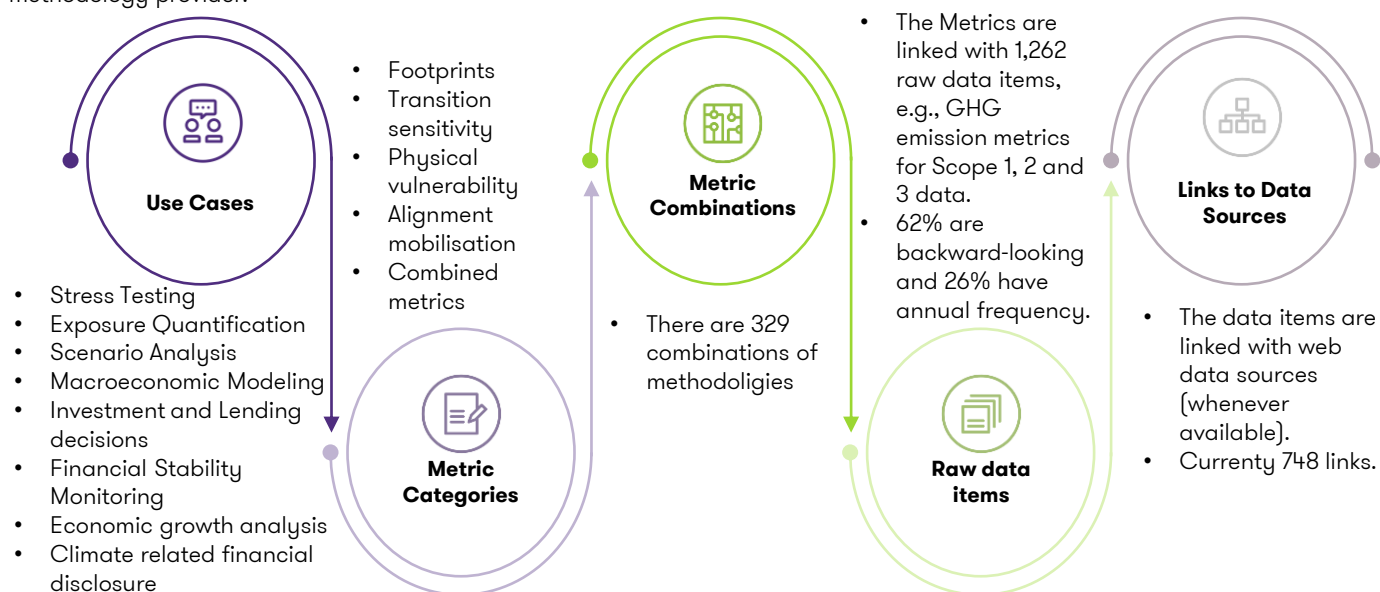
The NGFS Directory

Data items curated for the assessment of climate-related risks and opportunities in the financial sector

NGFS Workstream has built a [directory](https://ngfs.dev.masdkp.io/browse)³ that takes initial stock of the available data considering the needs of the financial sector. The main objectives are to:

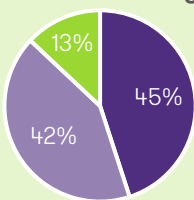
- provide insights into data sources that could be utilised to construct metrics,
- highlight climate-related data gaps,
- propose policy recommendations to be acted on by policymakers/ stakeholders,
- become an effective instrument for monitoring and responding to evolving climate-related data needs.

The directory enables users to find data items that were relevant to various use-cases and metrics. When a user selects and use case or metric, the tool presents the relevant data items and other information, such as simple description of metrics and methodology provider.

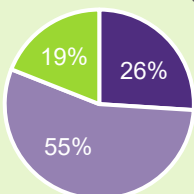


Share of data accessibility by time horizon

Forward-looking



Backward-looking



- Proprietary
- Public
- On Subscription

Forward-looking data are of particular importance. Although Transition Risk metrics are still mainly backward looking, physical risk metrics rely on forward-looking information. Physical risk data tend to be more public while transition risk data tend to be more proprietary. For instance, the NGFS scenarios are an example of publicly available forward-looking indicators.

Evidence-based conclusions on the main gaps

An approach to identify data gaps is to check which raw data items cannot be linked to sources. At the time of the report, there are 514 not observable data items out of 1,262 (or 41%). The main types of data that missing are **Accounting** and **Asset** specific, which are typically confidential. On top of these, **Biophysical impact**, **Emissions**, and **Geospatial** data suffer the most from missing data. NGFS notes that data sources could still suffer from availability, reliability and comparability.



Lessons Learned

Although the intention was for the directory to serve as a comprehensive assessment on data needs and availability, it was realized that it could also serve further uses and address convergence towards consistency of disclosures, taxonomy acceptance and well-defined metrics, certification labels, and methodological standards.

³ <https://ngfs.dev.masdkp.io/browse>

Policy Recommendations

Quality, availability, and comparability of climate data

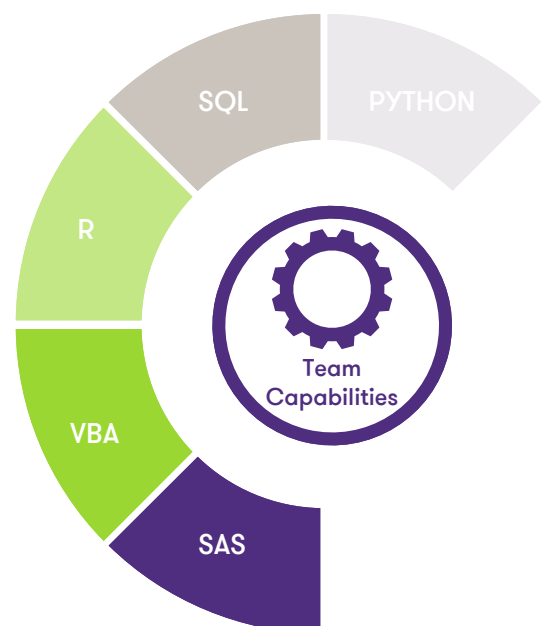
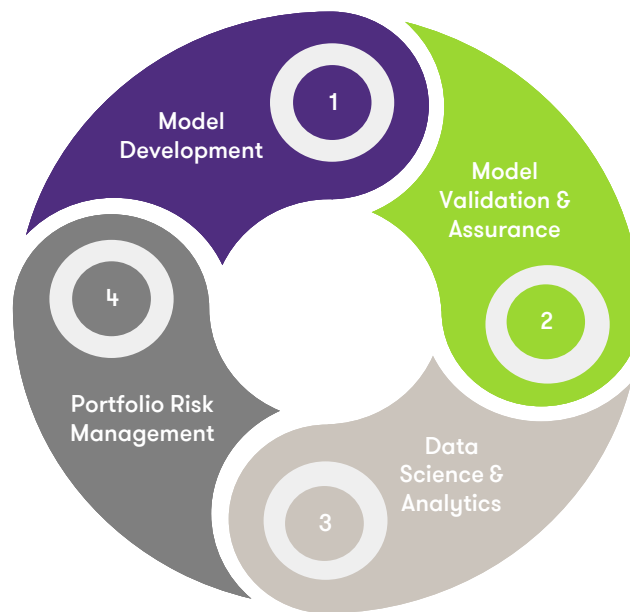


Grant Thornton Offerings

The ways Grant Thornton can help you

Grant Thornton's Quantitative Risk offerings

The Grant Thornton Quantitative Risk Advisory Team has a proven track record of success in meeting the most challenging of tasks for Institutions, local banks, and other Financial Services companies.

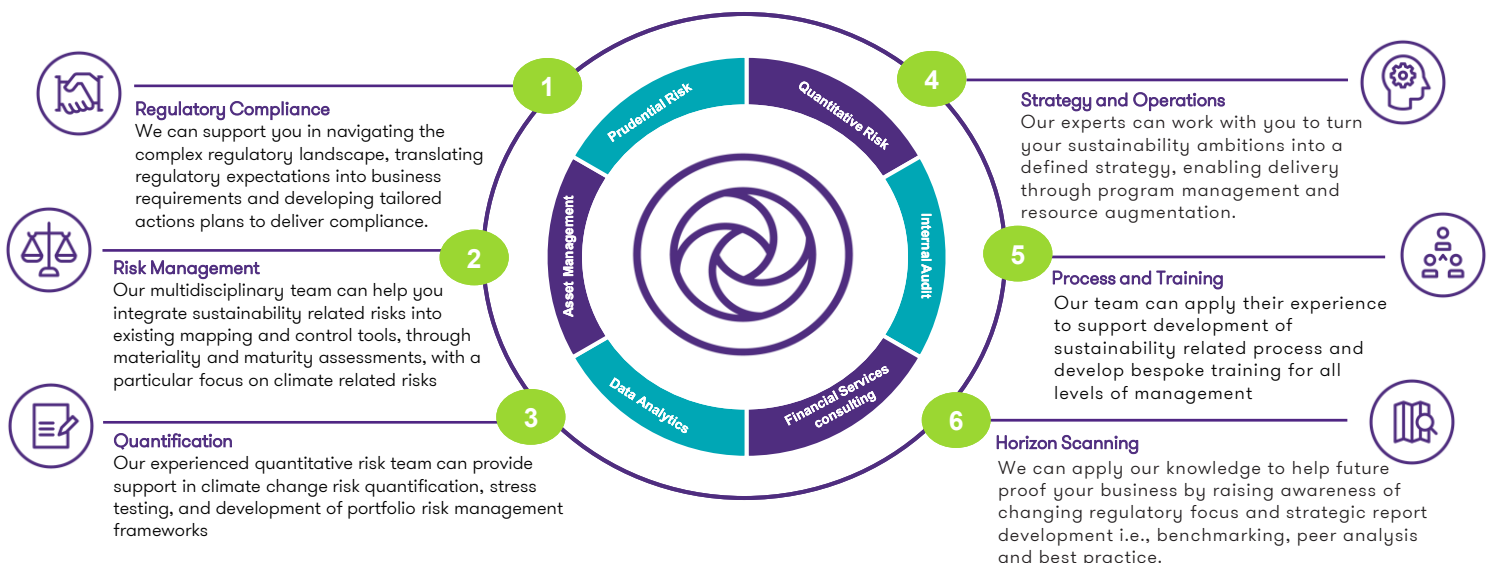


Grant Thornton Offerings

The ways Grant Thornton can help you

Grant Thornton's Sustainability offerings

The Grant Thornton dedicated Sustainability Team comprises a unique blend of professional services skills, industry experience and scientific expertise and is fully integrated within the wider Financial Services Advisory service line



Contact

Our team would be delighted to discuss your challenges and opportunities in any aspect of climate risk. Our services are flexible and efficient, designed to facilitate and support your business model. Contact us today to discuss.

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