House of Commons

Environmental Audit Committee

Greening Finance: embedding sustainability in financial decision making

Seventh Report of Session 2017–19

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 23 May 2018

HC 1063
Published on 4 June 2018
by authority of the House of Commons

Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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Committee reports are published on the Committee's website at www.parliament.uk/eacom and in print by Order of the House.

Evidence relating to this report is published on the inquiry publications page of the Committee's website.

Committee staff

The current staff of the Committee are David Slater (Clerk), Nina Foster (Second Clerk), Nicholas Davies (Committee Specialist), Ian Cruse (Committee Specialist), Jennifer Maddalena (Committee Researcher), Ameet Chudasama (Senior Committee Assistant, Baris Tufekci (Committee Assistant), and Sean Kinsey (Media Officer).

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Summary

Climate change and other environmental problems pose financially material threats to our economy. In the coming years and decades these financial risks will become even more apparent. In the time it takes today's young people to reach retirement age the projected rise in sea levels and the increased frequency and intensity of extreme weather events will have increasingly serious economic consequences for a range of investments–from food and farming to infrastructure, home building and insurance. Sectors and companies that do not make a timely low-carbon transition may also face costly regulatory or legal action as the world implements the Paris Agreement. Despite this, many financial institutions, businesses and regulators continue to ignore the financial risks and opportunities associated with climate change and other sustainability issues. Proper recognition and disclosure of these risks and opportunities would help financial markets work more efficiently and will enable UK institutions and investors to position themselves to benefit from the low-carbon transition.

Structural incentives across the UK investment chain encourage a focus on short-term returns, often to the neglect of longer-term considerations–including environmental sustainability and climate change-related risks and opportunities. Confusion about the extent to which pension trustees have a duty to consider environmental risks can also prevent institutional investors taking action to address climate change risks. Our own survey of the UK's top-25 pension funds (with £550 billion in investments) shows performance is mixed. In some quarters we encountered an outdated perception that climate change is purely an ethical or corporate social responsibility issue rather than a real material risk to present and future value. The Government should clarify that pension schemes and company directors have a fiduciary duty to protect long-term value and should be considering environmental risks in light of this.

Pension savers should be given greater opportunities to engage with decisions about where their money is invested. There is evidence that younger generations would often prefer to see their money invested in a fossil fuel-free manner. They should be given greater opportunity to express this preference. We were surprised to learn that there is no requirement for pension fund trustees to engage with beneficiaries when devising their Statement of Investment Principles (SIP), or for other governance bodies to act similarly. Nor is there even a requirement to communicate the SIP to beneficiaries once it is completed. The Government should require fiduciaries to actively seek the views of their beneficiaries when producing SIPs.

There is growing international momentum behind moves to encourage financial reporting on sustainability. The Government has endorsed international recommendations on climate-related financial disclosures and says it has 'encouraged publicly-listed companies' to implement them. However, Ministers do not appear to have taken any specific actions to do this. Given the long time-scales and large sums of money involved in the management of pension schemes, it is important to ensure that climate risk reporting applies equally to asset owners (such as pension funds) and their investment managers, not just listed companies as the Government has suggested. These groups should be given time to adapt and develop how they report on climate-

related risks and opportunities. But we do not believe a voluntary approach—in the medium term—will be effective. The Government should make reporting mandatory on a 'comply or explain' basis by 2022.

The UK's existing framework of financial law and governance could and should be used to implement climate-related risk reporting. The Government should now issue guidance making it clear that the Companies Act 2006 already requires companies to disclose climate change risks where they are financially material. The Financial Reporting Council's (FRC) Corporate Governance Code and UK Stewardship Code, and the Financial Conduct Authority's (FCA) listing rules should likewise be amended to require climate-related financial disclosures on a comply or explain basis by 2022. Embedding climate risk reporting in relevant UK corporate governance and reporting frameworks could negate the need for new legislation. The Government should review implementation after a year. If regulators fail to implement this appropriately and improve how they monitor the management of climate risk then the Government should pass new sustainability reporting legislation, similar to France's Article 173.

There are inadequacies in how the UK's framework of financial regulation is currently managing climate change risk. Among financial regulators in the UK, only the Bank of England and its Prudential Regulation Authority have given the issue the attention it requires. There is a compelling case for other regulators to use the current round of adaptation reporting required by the Climate Change Act 2008 to integrate climate change risk management into their work.

1 Climate risks & financial regulation

1. The UK has commitments under the Climate Change Act 2008, the UN's Sustainable Development Goals (SDGs)—goal 13 'climate action', and goals 8, 9 and 11 which contain commitments to sustainable and resilient economic growth—and the 2015 Paris Agreement on climate change to keep global temperatures rises to well below two degrees Celsius. We launched our green finance inquiry in November 2017 to examine how the UK could both mobilise the investment necessary to meet the challenge of climate change and encourage greater consideration of environmental risks in financial decision-making. We held a roundtable event and conducted five days of hearings with investors, asset owners, experts, financial regulators and Government ministers. We would like to thank all of those who contributed, especially our Specialist Adviser recruited for this inquiry, Mike Clark, a Fellow of the Institute and Faculty of Actuaries who has a track record of work on sustainable finance.[1]

Climate change risks: physical, liability and transition

2. Our first report on green finance, published on 16 May 2018, looked at how to secure investment in clean energy specifically.[2] In this report we focus on how to ensure environmental risks like climate change are factored into financial decision making across the economy. The Bank of England and others have identified three types of risks as arising from climate change: physical, liability and transition.[3]

3. The physical impacts of climate change, such as a rise in sea levels and increase in the frequency and intensity of extreme weather events, will pose increasing economic risks for a range of businesses and investments—from food and farming to infrastructure, home building and insurance. In the UK alone, climate change is projected to: increase the risk that business assets and operations are damaged and disrupted by flooding; degrade some of our most productive agricultural land; reduce water supplies; increase the frequency and intensity of heatwaves; and stress transportation, energy and water infrastructure.[4]

4. Liability risks may result from climate change when those who suffer losses as a result of climate change take legal action to recover damages from those that can be found responsible. For example, five fossil fuel firms—BP, ExxonMobil, Chevron, ConocoPhillips and Shell—are facing legal action from the City of New York, which is seeking to recover the costs of protecting the city from flooding and erosion due to climate change.[5]

5. Transition risks could also face companies in high-carbon sectors who fail to diversify and adapt to policies introduced in response to what the science tells us is necessary to avoid catastrophic climate change. In December 2015, 195 countries signed the Paris Climate Agreement to limit global temperature rises to well below 2°C by 2100, marking the

1 Michael John Clark: Declaration of Interests: Ario Advisory, Founder Director and Owner; Brunel Pension Partnership Ltd ("Brunel"), Non-Executive Director; Institute and Faculty of Actuaries, Fellow; Rype Office Limited, Shareholder, Provider of sustainable office furniture; WHEB Asset Management, Member of independent Investment Advisory Committee

2 Environmental Audit Committee, Green Finance: mobilising investment in clean energy and sustainable development (May 2018)

3 Bank of England Prudential Regulation Authority, The impact of climate change on the UK insurance sector (September 2015)

4 Committee on Climate Change, UK Climate Change Risk Assessment 2017 (July 2016)

5 https://www.ft.com/content/4de8e4fc-f62b-11e7-88f7-5465a6ce1a00

beginning of a global process of regulatory action to curtail climate-changing emissions from fossil fuels and deforestation. Firms that do not make a timely transition and remain overly invested in climate-changing activities could face costly regulatory action, suffer reputational damage or see their assets become stranded as carbon prices rise.[6] A Bank of England paper published in 2016 warned that 'a sudden, unexpected tightening of carbon emission policies could lead to a disorderly re-pricing of carbon-intensive assets'.[7] Such a scenario could arise if the effects of climate change accelerated due to positive feedback mechanisms, for example.

6. The risks identified by the Committee on Climate Change and the Bank of England mean that climate change is increasingly regarded as a material risk to a wide range of investments and economic activities,[8] particularly to long-term investments like pensions. As the chair of HSBC's pension scheme, Russell Picot, pointed out:

> ' … if you are a member of a defined contribution pension scheme—that is most young people nowadays—the reality is that you are probably going to be 40 to 50 years away from retirement, and whatever those sorts of timescales climate risk and ESG factors will be material to the financial performance of your funds. I think that is almost a statement of the obvious.'

Environmental, social and governance (ESG) refers to the three central factors in measuring the sustainability and ethical impact of an investment in a company or business.

7. In 2015, consultants Mercer published Investing in a Time of Climate Change, a report outlining four plausible climate change scenarios (considering temperature rises by the end of the century from 2°C to 4°C) and the impact that each scenario could have on investment returns. The report suggested that, under all the scenarios it modelled, climate change—or society's response to it—would have an impact on investment returns.[9]

The scale of the risks

8. Steve Waygood from the insurance company Aviva provided a sobering assessment of the scale of the risks that climate change could pose to financial stability over the course of the twenty first century if the Paris Agreement's aspiration to limit global temperature rises to 1.5–2 degrees is not achieved:

> 'Many scientists are saying that 4, 5, 6 degrees is at least a risk that we need to be considering. At 4 degrees the insurance business model fails to exist. We could not underwrite to the price that the economy can afford. At 6 degrees […] the present value of risk from 6 degrees change is £42 trillion. Of course, these are models but, in terms of the hazards that we would experience, we are talking about economic meltdown.'[10]

6 Q294 and https://www.forbes.com/sites/mikescott/2018/03/08/1-6-trillion-of-investments-at-risk-if-fossil-fuel-firms-fail-to-heed-climate-targets/#12f344aa2a03
7 Bank of England, Staff Working Paper No. 603: Let's talk about the weather: the impact of climate change on central banks (May 2016)
8 The Task Force on Climate-related Financial Disclosures, Final Report (June 2017)
9 Mercer, Investing in a Time of Climate Change (2015)
10 Q53

The Bank of England

9. In 2014, our predecessor Committee called on the Bank of England (BoE) to monitor the risk that climate change could pose to financial stability.[11] The Bank Governor Mark Carney told our predecessor committee in October 2014 that 'the Financial Policy Committee (FPC) would consider the [climate risks] issue as part of its regular horizon-scanning work on financial stability risks'.[12] The Bank of England and Governor Mark Carney, as Chair of the Financial Stability Board, have gone on to help put climate risk on the agenda of the G20 and were instrumental in the international Financial Stability Board establishing the Task Force on Climate-related Financial Disclosures (whose recommendations we will turn to in Chapter Three). The Bank of England has said:

> 'Central banks and financial regulators have a core responsibility to understand risks to financial stability and the financial institutions which they supervise. There is growing recognition and evidence of the financial risks from climate change and their relevance to central bank mandates.'[13]

A Tragedy of the Horizon?

10. In his September 2015 speech on 'the Tragedy of the Horizon' the Bank of England Governor, Mark Carney, described how the timescales involved in climate change mean that businesses, politicians, and regulators may be late to recognise and respond to the risks:

> 'A classic problem in environmental economics is the tragedy of the commons. The solution to it lies in property rights and supply management. Climate change is the Tragedy of the Horizon.
>
> We don't need an army of actuaries to tell us that the catastrophic impacts of climate change will be felt beyond the traditional horizons of most actors—imposing a cost on future generations that the current generation has no direct incentive to fix. That means beyond: the business cycle; the political cycle; and the horizon of technocratic authorities, like central banks, who are bound by their mandates.
>
> The horizon for monetary policy extends out to 2–3 years. For financial stability it is a bit longer, but typically only to the outer boundaries of the credit cycle—about a decade. In other words, once climate change becomes a defining issue for financial stability, it may already be too late.'[14]

11. The Treasury and Department for Business Energy and Industrial Strategy's (BEIS) submission to our inquiry, however, argued that the market is already in the process of integrating climate risks and opportunities.[15] It cites studies showing that companies with higher ESG scores tend to have higher operational metrics such as Return On Equity, Return On Capital Employed and lower net debt/Earnings Before Interest, Tax,

11 Environmental Audit Committee, Green Finance (March 2014)
12 https://www.parliament.uk/documents/commons-committees/environmental-audit/Letter-from-Mark-Carney-on-Stranded-Assets.pdf
13 https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2017/the-banks-response-to-climate-change.pdf
14 https://www.bankofengland.co.uk/-/media/boe/files/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability.pdf
15 HM Treasury and Department for Business Energy and Industrial Strategy (GFI0027)

Depreciation and Amortisation.[16] This leads to premium valuations and lower share price volatility. The Government says that 'all of this points to an ongoing, market-led approach to promoting long-term sustainable development and investment.'[17]

Misaligned incentives

12. Despite the Government's assurances, we heard again and again during our inquiry how a structural focus on short term returns in the UK financial system often leads to the neglect of longer-term considerations—including environmental sustainability and climate change-related risks and opportunities. We were told that there are misaligned incentives at each stage of the investment chain that mean capital markets do not adequately price sustainability. For example, we heard that:

- The 'fiduciary duty' of pension scheme trustees is misinterpreted as a duty to maximise short-term returns.[18]
- The quarterly earnings cycle and structure of remuneration for investment consultants and fund managers encourages a pursuit of short-term returns rather than long-term value creation.[19]
- There can be a tendency to underinvest in physical assets, technology innovation, and employees' skills in preference for nearer term gains from financial mergers, acquisitions or restructuring.[20]
- Investment banks are incentivised to increase short term market activity. Sell-side analysts rarely produce long-term sustainability-oriented research due to commercial conflicts of interest and pressure from company management/investor relations.[21]
- Credit ratings agencies do not sufficiently incorporate long term considerations into their credit analysis, despite sustainability risks often being of material importance to a company's performance and credit worthiness.[22]
- Stock exchanges are themselves listed companies and are thus incentivised to increase trading volumes to improve their own share price. As a consequence, holding periods are getting shorter and listed companies are pressured to focus on short term returns.[23]

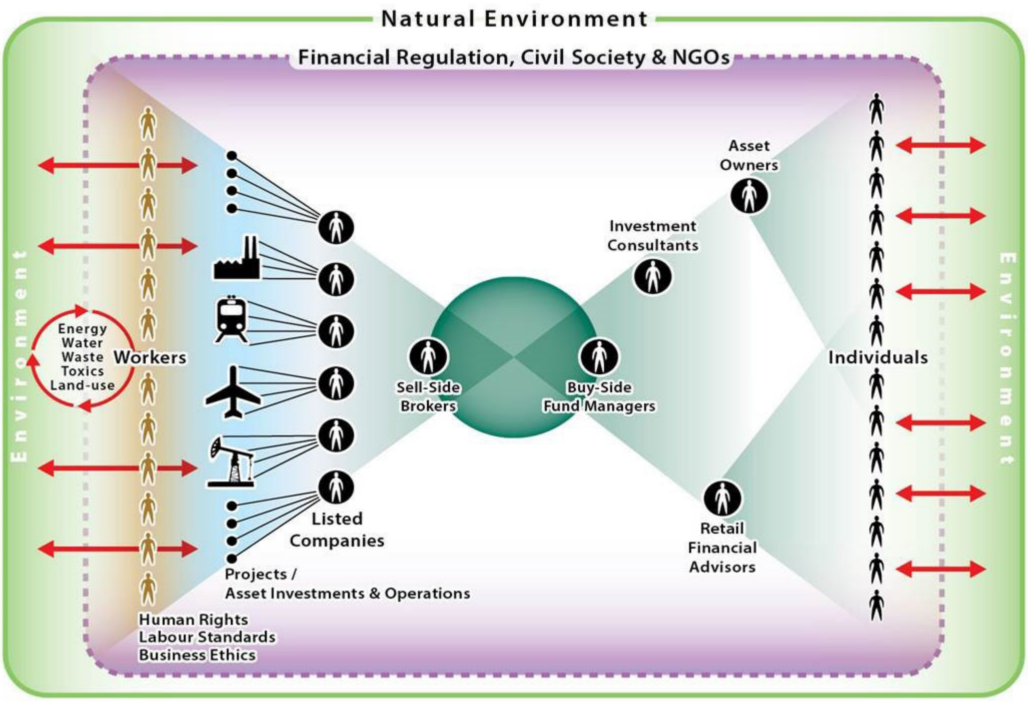
We focused our attention on two ways of factoring environmental risks like climate change into financial decisions:

- Clarification of pension trustees' fiduciary duty and updated guidance and rules on the governance of pension funds;
- Company reporting and implementation of recommendations on climate-related financial disclosures.

16 HM Treasury and Department for Business Energy and Industrial Strategy (GFI0027)
17 HM Treasury and Department for Business Energy and Industrial Strategy (GFI0027)
18 Aldersgate Group (GFI0003), Aviva (GFI0024), UKSIF (GFI0002)
19 Aldersgate Group (GFI0003), Aviva (GFI0024), ClientEarth (GFI0012), ShareAction (GFI0013)
20 Principle for Responsible Investment (GFI0029)
21 Aviva (GFI0024)
22 Aviva (GFI0024), WWF (GFI0022)
23 Aviva (GFI0024)

We will explore these issues in greater detail in Chapters Two and Three respectively.

The Investment Chain



This info-graphic, provided by Aviva, illustrates how money is transferred along the investment chain. Individual pension savers and investors on the right may invest collectively as institutional investors—through pension schemes or insurance companies—or as individual investors through retail financial advisors. Institutional asset owners often take the advice of investment consultants who, in turn, recommend which asset manager to choose. Such fund managers decide which company stocks to buy or sell on stock exchanges from brokers who are typically part of an investment bank providing investment analysis. Meanwhile, the companies on the left invest this capital to generate a return for their shareholders.

13. **There is growing recognition that climate change—and the world's response to it—will pose financial risks over the coming years and decades. In the 40 to 50 years it will take today's young people to reach retirement age the projected rise in sea levels and the increased frequency and intensity of extreme weather events will have economic consequences for a range of investments—from food and farming to infrastructure, home building and insurance. Proper recognition and disclosure of these risks and opportunities would help financial markets to work more efficiently and will enable UK institutions and investors to position themselves to benefit from the low-carbon transition.**

14. **The Bank of England and Governor Mark Carney have shown leadership on this issue, setting out the risks to financial stability and putting the issue on the agenda of the G20. The Government must do more to prevent the 'tragedy of the horizon' by ensuring that financial institutions, businesses and regulators factor long term environmental risks like climate change into financial decision making.**

2 Pension saving & environmental risk

15. Considering climate change risk from the perspective of pension regulation is especially important given the long time-scales involved in pension saving and the huge sums of money controlled by pension funds. There are many hundreds of billions of pounds in UK pension schemes and these 'asset owners' sit at the top of the investment chain. The UK Sustainable Investment and Finance Association (UKSIF) argued that these 'sleeping giants' often 'do not realise the financial power they wield'.[24] Ensuring that these funds manage environmental risks effectively could assist in the transition to a low carbon economy and reduce the UK's overall exposure to climate risk. However, only 5% of 1,241 European Pensions schemes have considered the investment risk posed by climate change, according to the consultancy firm Mercer's 2017 European Asset Allocation Report.[25]

Influence of asset owners

16. As part of this inquiry we looked at two core issues affecting how pension funds manage environmental risks like climate change:

- The interpretation of fiduciary duty
- How pension funds could be engaging with their beneficiaries on sustainability

We also wrote to the 25 largest UK pension funds, responsible for some £550bn of long term investments, to seek evidence as to how climate change risk was—or was not—incorporated into these investors' long-term investment decision-making.[26] We will discuss the responses in the context of recommendations on climate-related financial disclosures in Chapter Three.

Pension saving in the UK

17. More people are saving for retirement through workplace pension schemes than ever before.[27] Since the Pensions Act 2008, employers have been required to auto-enrol all employees aged between 22 and the state pension age and who earn over £10,000 a year into a work pension scheme.[28] By 2016, 78% of eligible employees (16.2 million people) were participating in a workplace pension, up from 55% of eligible employees (10.7 million) in 2012.[29]

18. There are two main types of workplace pension:

- **Defined benefit** (DB) scheme: In DB schemes, the employer guarantees scheme members a certain income on retirement, often expressed as a percentage of their final or average salary.

24 UKSIF (GFI0002)
25 https://www.uk.mercer.com/newsroom/european-asset-allocation-report-2017-climate-change-risk.html
26 Letters to Pension Trustees on climate change risks (February 2018)
27 https://www.autoenrolment.co.uk/news/more-people-have-workplace-pensions
28 Law Commission, Pension Funds and Social Investment Summary (June 2017)
29 Department for Work and Pensions, Automatic enrolment review 2017 (December 2018)

- **Defined contribution** (DC) scheme: In DC schemes, the saver's income on retirement depends on the performance of the pension fund investments. The saver, rather than the employer, takes the risk that the investments may not perform well.[30]

19. As well as the distinction between DB and DC schemes, pension arrangements can be further categorised as either being set up through a trust structure or based on a contract. DB schemes are set up as trust-based schemes. DC schemes can be set up either as trust-based or as contract-based schemes run by personal pension providers. This further distinction is a matter of legal form and does not impact the pension saver's return. However, the different types of scheme have distinct governance structures and are subject to different legal and regulatory regimes:

- **Trust based schemes.** The Department for Work and Pensions (DWP) sets the rules for trust-based schemes, which are overseen by a board of trustees and regulated by the Pensions Regulator (tPR).

- **Contract-based schemes.** The Financial Conduct Authority (FCA) regulates contract-based schemes because they are typically provided by insurance companies.[31]

Trust-based and contract-based schemes are governed by different sources of law and there are differences in relation to how investment decisions are made and reviewed.[32] In a contract-based pension scheme there are no trustees, but FCA rules require each provider to establish and maintain an independent governance committee which carries out an oversight role over workplace schemes operated by that provider, assessing value for money and how the provider has considered the policyholders' interests.

The Pensions Regulator (tPR) is the public body that protects workplace pensions in the UK. It is responsible for outlining what employers and trustees governing schemes need to do. It also has a role in driving up standards of trusteeship across all schemes, particularly for chairs and professional trustees.

Financial Conduct Authority (FCA) is the conduct regulator for 56,000 financial services firms and financial markets in the UK and the prudential regulator for over 18,000 of those firms. It has three operational objectives: consumer protection; protecting & enhancing the integrity of the UK financial system, and; promoting effective competition in the markets for regulated financial services.

20. Since auto-enrolment was introduced the number of people saving in a contract-based defined contribution (DC) pension scheme through their workplace has overtaken the number saving in trust-based DC schemes. Meanwhile active membership of private sector DB pension schemes is in decline.[33] The DWP described the changing pension market in its submission:

> 'the two halves of the pensions market are converging, with personal pension schemes being used as workplace pensions for automatic enrolment, and

30 Law Commission, Pension Funds and Social Investment Summary (June 2017)
31 https://www.fca.org.uk/firms/independent-governance-committees
32 Law Commission, Pension Funds and Social Investment Summary (June 2017)
33 Law Commission, Pension Funds and Social Investment Summary (June 2017)

> multi-employer occupational pension schemes being established and run by traditional personal pension providers. Since the provider of a workplace pension might equally well be a personal pension provider regulated by the FCA or an occupational scheme regulated by The Pensions Regulator, there is an argument for continued harmonisation of legislation, and increased collaboration between these bodies.'[34]

Interpretation of fiduciary duty

Fiduciary duty refers to the responsibility that company directors or pension fund trustees have to exercise their responsibilities in the best interests of their company or 'beneficiaries'. In law, a 'fiduciary' owes a duty of loyalty to others arising from the role the fiduciary holds, and the context in which they hold it. That role may give rise to other legal duties which sit alongside the fiduciary duty. For pension fund trustees, these duties will generally be to the pension savers who are members of the scheme. For UK companies, directors' duties—including fiduciary duties—are owed to the company (primarily to shareholders, but having regard to a range of other factors including employees' interests).

21. Evidence we considered during the inquiry suggested that fiduciary duty is often misinterpreted as a duty to maximise short-term returns and that this could be particularly problematic when it came to the management of long term pension funds.[35] The UK Sustainable Investment and Finance Association (UKSIF) said that 'lingering confusion' meant some parts of the investment chain interpreted fiduciary duty 'very narrowly' as a requirement for 'investors to maximise short-term returns over consideration of factors which may be material over the longer-term'.[36] UKSIF says that:

> 'Fiduciary duty means acting in the best interests of beneficiaries, who will have, given the nature of pensions, long-term investment horizons. The integration of financially material environmental, social and governance (ESG) issues into investment decisions and robust stewardship policies can help reduce investment risk and enhance returns, yet misconceptions remain around the legality of consideration of these factors.'[37]

22. We asked the National Employment Savings Trust (NEST), which is the body set up by the Government to provide a default pension service for employers, about this. Its Head of Responsible Investment, Diandra Soobiah told us:

> '…all the evidence points to climate change being a big economic risk in the future, but when I have made presentations on our climate-aware fund I still have questions from members of the audience asking, "How do you square this with your fiduciary duty?" and numerous times throughout that presentation I have said, "This is about managing material financial risk for our members in the long-term" and I cannot emphasise that point any more than I already have. I have given them examples of how we are moving more into these companies that are instrumental in the transitioning to

34 Department for Work and Pensions (GFI0037)
35 Aviva (GFI002), ClientEarth (GFI0012), UKSIF (GFI0002), Q236
36 UKSIF (GFI0002)
37 UKSIF (GFI0002)

> a low carbon economy and generating renewable energy. These are the companies that are going to be generating value in the long-term and members are going to be benefiting from that in the long-term so this is about financial value.’[38]

Short-term vs long-term returns

23. Evidence to the inquiry suggested that the misunderstanding of fiduciary duty was compounded by the structure of short-term incentives noted in Chapter One. As Aviva explained:

> ‘Pension funds often rely on the advice of investment consultants when allocating capital. This gives investment consultants considerable influence over capital allocation. However, their fee and incentive structures too often drive a short-term outlook that overlooks long term sustainability considerations.’[39]

24. ShareAction outlined how the pursuit of short-term returns by the fund managers and consultants could undermine long-term value creation for pension savers:

> ‘Misalignment of interests across the investment chain is particularly problematic in the pensions system, where the majority of pension savers have a long-term perspective, but their agents (pension funds and their investment managers) operate on shorter time horizons driven by market practice. For example, a 25 year old saving for their pension has an investment horizon of 40 years, but pension fund investors say they stay invested on average for a little more than four and a half years. 22% of funds say they have a time horizon of five to 10 years, but 51% of funds have a time frame of five years or less, with 8% of these having a time horizon of just six to 12 months. 20% of funds say they have no specific timeframe for holding investments. To put this in context, a timeframe of five years is usually suggested as the minimum for equity market investment, on the basis this allows investors to experience the ups and downs of a normal market cycle.’[40]

Law Commission findings on fiduciary duty

25. In 2014, the Law Commission published a report on The Fiduciary Duties of Investment Intermediaries which found that, under the existing law, pension trustees are legally required to take into account factors which are financially material to risks or returns when making investment decisions, regardless of whether or not those factors might sometimes be considered to be environmental, social and governance (ESG) factors.[41] On 23 June 2017, the Law Commission published a further report on Pension Funds and Social Investment.[42] It found there are no substantive regulatory barriers to making social impact investment by pensions funds. Most of the barriers are in fact structural and

38 Q250
39 Aviva (GFI0024)
40 ShareAction (GFI0013)
41 Law Commission, Fiduciary Duties of Investment Intermediaries (June 2014)
42 Law Commission, Pension Funds and Social Investment (June 2017)

behavioural, including the need for clearer legislation and guidance. The Law Commission argued that the conflation of 'social, environmental or ethical considerations' is confusing. It says that environmental, social and governance factors can in some cases be considered material risks and as such are financial factors. 'This is very different from specifically "ethical" considerations, such as a decision not to invest in or withdraw investment from an industry to show ethical disapproval.'[43]

Disparity on guidance for trust & contract-based pension schemes

26. Following the Law Commission recommendations, the Pension Regulator (tPR) published updated guidance in July 2016 on investment by Defined Contribution (DC) schemes and in March 2017 on Defined Benefit (DB) schemes. This clarified that trustees are required to take into account factors that are financially material to investment performance, including environmental, social and governance factors. However, the FCA did not publish similar clarifying guidance for personal pension providers governing the contract-based pension schemes, which it regulates. We heard concerns that this has left a disparity in the guidance to trust-based DB and DC schemes (regulated by the Pensions Regulator) and contract-based DC schemes (overseen by the Financial Conduct Authority) when it comes to their duty to consider longer-term environmental risks as a financial factor.[44] It was argued that the FCA should issue guidance for contract-based schemes in line with the Law Commission's recommendations, as the Pensions Regulator has already done for trust based DB and DC schemes.[45]

27. The UK Sustainable Investment and Finance Association (UKSIF) criticised the 'reticent' approach of the FCA on sustainable investment issues. Its evidence highlighted that the Law Commission had recommended 'for the second time in 3 years' that the Government clarify fiduciary duties for trustees by making it clear that consideration of ESG factors is compatible with trustees' fiduciary duty and, where financially material, to ignore such factors would breach that duty.[46] UKSIF says:

> 'the Law Commission also recommended the FCA introduce equivalent rules on the contract side of the market, which has seen rapid growth since the introduction of automatic enrolment. We strongly welcome the recent DWP announcement that it is "minded" to make such changes and will consider how to implement the recommendations in consultation with the sector. We are confident it will introduce appropriate new rules which will require trust-based pension schemes to take account of, for instance, the financial risks associated with climate change. […] DWP and the FCA have said in the past they want outcomes for pension scheme members in trust-based and contract-based schemes to be the same, and it is difficult to see how this would be the case should the FCA fail to introduce equivalent measures.'[47]

28. ClientEarth said it was concerned by the delayed response from the Financial Conduct Authority to the Law Commission's recommendations for contract-based

43 Law Commission, Pension Funds and Social Investment Summary (June 2017)
44 Aldersgate Group (GFI0003), ClientEarth (GFI0012), E3G (GFI0016), UKSIF (GFI0002)
45 E3G (GFI0016), ShareAction (GFI0013), UKSIF (GFI0002) and Q232
46 UKSIF (GFI0002)
47 UKSIF (GFI0002)

pension schemes. It says the FCA should urgently address the recommendations drawn to its attention. In its submission, the DWP notes the disparity between the guidance for trust and contract-based pension funds on managing environmental risks and says:

> 'as the FCA is an independent regulator and not sponsored by the DWP it therefore would not be appropriate for us to comment on whether or when the FCA should accept the Law Commission's recommendations and harmonise its own rules.'[48]

29. In January 2018, the Pensions Regulator and the Financial Conduct Authority published a joint statement announcing that they will working together on 'a pensions regulatory strategy, which will set out how we will work together to tackle the key risks facing the pensions sector in the next five to ten years'.[49] The regulators say this work will also be informed by the FCA's research and tPR's ongoing 'TPR Future' programme, and the Department for Work and Pensions' review of automatic enrolment.

Clarifying the law on fiduciary duty

30. In response to the Law Commission's 2017 report on 'Pension Funds and Social Investment', the Department for Work and Pensions (DWP) announced that it was 'minded' to accept some of the recommendations.[50] It has committed to consult on changes to policy and regulations during 2018 and bring forward legislation—subject to the outcome of the consultation—that clarifies trustee duties in respect of financially material environmental risks as well as the ability of schemes to give weight to members' non-financial and ethical concerns.[51] This consultation is expected to be announced in June.

31. We heard multiple calls for the scope of fiduciary duty to be clarified in law by the Government.[52] The Principles for Responsible Investment (PRI), an international NGO working to promote sustainable investment practices, said that the Department for Work and Pensions should amend the Investment Regulations to clarify that fiduciary duty requires pension trustees to pay attention to long-term factors—such as climate change—in their decision making and the decision making of their agents.[53]

32. In its submission, the Department for Work and Pensions acknowledged that recent research showed that misunderstanding of fiduciary duty remains 'widespread', although it noted that there is 'relatively little robust research' on the interpretation of fiduciary duty. It said:

> 'We hoped that the publication of guidance on this point by The Pensions Regulator would address trustee confusion about their duties. However, recent research has suggested that a lack of attention and outright misunderstanding remain widespread among Trustees.' […] 'Whilst there

48 Department for Work and Pensions (GFI0037)
49 http://www.thepensionsregulator.gov.uk/doc-library/tpr-and-fca-our-strategy-for-pensions.aspx
50 Department for Work and Pensions, Pension funds and social investment: the government's interim response (December 2017)
51 Department for Work and Pensions (GFI0037)
52 Aldersgate Group, Aviva, ClientEarth, E3G ShareAction, UKSIF, WWF
53 Principle for Responsible Investment (GFI0029)

> are clearly trustees who understand the issues, are actively engaging with them and are reviewing and where necessary amending their investment strategies accordingly, good practice appears to be far from universal.'[54]

The DWP added that:

> 'Given that there is a broad scientific and public policy consensus that climate change is [a material] risk, then trustees already have a duty to take account of it.'[55]

33. On 8 March 2018, the European Commission published its action plan on sustainable finance intended to reorient capital flows towards sustainable investment, manage financial risks from climate change and foster transparency and long-termism in financial and economic activity. As part of this strategy, the Commission has pledged to table a legislative proposal to clarify institutional investors' and asset managers' duties in relation to sustainability considerations by mid 2018, subject to an impact assessment. The proposal will aim to (i) explicitly require institutional investors and asset managers to integrate sustainability considerations in the investment decision-making process and (ii) increase transparency towards end-investors on how they integrate such sustainability factors in their investment decisions, in particular as concerns their exposure to sustainability risks.[56]

34. **Considering climate change risk from the perspective of pension regulation is especially important given the long timescales involved and the many hundreds of billions of pounds in UK pension schemes. Pension fund trustees have a fiduciary duty to act in the best interests of their beneficiaries. This include taking account of long-term risks, such as those arising from climate change. Although we heard examples of good practice during the inquiry, the Government also admitted in its evidence that there is widespread misunderstanding amongst trustees on the scope of their fiduciary duty in relation to environmental risks.**

35. **We were deeply concerned to hear how structural incentives also promote the pursuit of short term returns by investment managers acting on behalf of pension funds, often leading to the neglect of longer-term considerations—including environmental sustainability and climate change-related risks and opportunities. *The Government should clarify in law that pension schemes and company directors have a duty to protect long-term value and should be considering environmental risks in light of this.***

36. **A worrying disparity currently exists in the guidance to trust-based pension schemes (regulated by the Pensions Regulator) and contract-based schemes (overseen by the Financial Conduct Authority) when it comes to considering environmental risk as a financial factor. This is the result of the FCA's apparent reluctance to act on the Law Commission's recommendations on clarifying the duty of contract-based schemes in relation to environmental, social and governance factors. *The FCA should rectify this by the end of the year.***

54 Department for Work and Pensions (GFI0037)
55 Department for Work and Pensions (GFI0037)
56 European Commission, Action Plan: Financing Sustainable Growth (March 2018)

Giving pension savers a say on sustainability

37. There is evidence that demand for sustainable investment is growing, with young people driving this trend. In 2017 40% of those surveyed in an annual YouGov poll for 'Good Money Week' wanted a 'fossil fuel free' pension option, up from 35% in 2016 and 32% in 2015. In the 2017 poll, over half of 18 to 34-years-olds (54%) said they would like to be offered fossil free investments as standard, compared to the national average of 40%, and only 34% of those over 55. Overall, 57% of the UK public with a pension believe investment managers have a responsibility to ensure holdings are managed in a way that is positive for society and the environment, according to the survey.[57]

38. According to the Law Commission, pension trustees are legally able to take environmental or social impacts of an investment into account in certain circumstances even if they are not considered a financial risk. It points out that trustees of a scheme may favour investments with a positive environmental or social impact or avoid investments deemed to have a negative impact if they pass two tests taken from case law:[58] Trustees or governance committees must:

- Have good reason to think that scheme members would share their concerns; and
- The decision should not involve a risk of significant financial detriment to the fund.

39. According to the Law Commission, having 'good reason' to think that scheme members hold a concern does not necessarily require survey evidence. In some cases trustees may be able to make assumptions. The Law Commission gives the example of the manufacture of cluster bombs, which was banned by the 2008 Convention on Cluster Munitions. Trustees may reasonably assume that most people would consider investing in their manufacture to be wrong. In other cases, the Law Commission says it may be necessary to consult members more formally.[59]

Statement of Investment Principles

40. Trust-based pension schemes are required under the Pensions Act 1995 and Investment Regulations to produce a 'statement of investment principles' (SIP) setting out their investment policies. Among other things, the SIP must include a statement of the trustees' policy on the extent to which social, environmental or ethical considerations are taken into account in the selection and retention of investments.

41. Trustees of occupational schemes have a duty to consult the sponsoring employer on their SIP[60] and must provide a copy of the SIP if beneficiaries request it. However, we were surprised to discover during the inquiry that there is no requirement for pension fund trustees to engage with beneficiaries when devising their Statement of Investment Principles (SIP), or for other governance bodies to act similarly. Nor is there even a

57 http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/pension-freedom-and-choice/written/71896.html
58 Law Commission, Pension Funds and Social Investment Summary (June 2017)
59 Law Commission, Pension Funds and Social Investment Summary (June 2017)
60 Department for Work and Pensions (GFI0037)

requirement to communicate the SIP to beneficiaries once it is completed. In its submission, Aviva recommends that the UK Government should require fiduciaries to actively seek the views of their beneficiaries so that these can be reflected in investment decisions.

42. The Department for Work and Pensions said in its submission that it wants pension savers 'to have their say on where their money is invested'.[61] It will be launching a consultation in June 2018 on how pension savers could be given more of a say over how their money is invested and set out in its letter to us some of the options it is considering including in the consultation:

- requiring trustees to evaluate not just how they intend to take account of financially material risks but, when they revisit their Statement of Investment Principles, to review how they ensured those considerations were taken into account;
- specifically highlighting particular considerations, such as climate change or corporate governance, for which trustees are required to have a particular policy;
- requiring trustees to publish the statement of investment principles, or make it available to all on request, and to tell members that the Statement of Investment Principles is available.[62]

43. The Government says it support the Law Commission's view that trustees should consider members' ethical concerns and act on them where they have good reason to think that members share the concern and it does not involve a risk of significant financial detriment. However, the DWP raised concerns about 'ethical' investment decisions being made solely on the basis of self-selecting surveys:

> 'The Department is actively considering how best to achieve this in practice. For example, it is noteworthy that trustees of occupational schemes have a duty to consult the sponsoring employer on their Statement of Investment Principles, but there is no equivalent duty to consult with scheme beneficiaries. Nevertheless, we are mindful that trustees' duties are to their whole membership. The Pensions Regulator's DC guidance makes clear that it is appropriate for trustees to carry out beneficiary surveys where the sample group self-selects. However, a decision, on purely ethical grounds, to invest or divest in an asset on the basis of a low-response self-selecting member survey alone, would rarely be justified.'[63]

44. The European Commission's action plan on sustainable finance proposes that institutional investors and investment managers should consult their beneficiaries on their sustainability preferences and reflect those in their investment decision-making—regardless of whether or not they are financially material.[64] The plan states that:

> 'institutional investors and asset managers do not sufficiently disclose to their clients if and how they consider these sustainability factors in their decision-making. End-investors may, therefore, not receive the full information they need, should they want to take into account sustainability-related issues in

61 Department for Work and Pensions (GFI0037)
62 Department for Work and Pensions (GFI0037)
63 Department for Work and Pensions (GFI0037)
64 European Commission, Action Plan: Financing Sustainable Growth (March 2018)

their investment decisions. As a result, investors do not sufficiently take into account the impact of sustainability risks when assessing the performance of their investments over time.'[65]

45. **Pension savers should be given greater opportunities to engage with decisions about where their money is invested. There is evidence that younger generations would often prefer to see their money invested in a fossil fuel-free manner. They should be given the opportunity to express this preference.**

46. ***In its forthcoming consultation the Department for Work and Pensions should propose a change in the law to require pension fund fiduciaries to actively seek the views of their beneficiaries when producing their Statement of Investment Principles or Investment Strategy Statements. The DWP must set out guidance on how to ensure that evidence of members' views is gathered robustly.***

65 European Commission, Action Plan: Financing Sustainable Growth (March 2018)

3 Climate risk reporting

47. Despite the 2015 Paris Agreement on climate change and official warnings about the extent of climate change risk, almost three quarters of large companies worldwide do not acknowledge the financial risks of climate change in their annual financial reports, according to the KPMG 2017 Survey of Corporate Responsibility Reporting.[66] More than half of 497 institutional investors surveyed by HSBC said they were receiving 'highly inadequate' information from companies about their risk of disruption from climate change and opportunities to benefit from the shift to low-carbon technologies.[67]

The Task Force on Climate-related Financial Disclosures (TCFD)

48. In April 2015, G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board to review how the financial sector can take account of climate-related risks. The Financial Stability Board established a 32 member international Task Force on Climate-related Financial Disclosures (TCFD) chaired by Michael R. Bloomberg with members from large banks, insurance companies, asset managers, pension funds, non-financial companies, accounting firms, and credit ratings agencies. In June 2017, the Task Force published its recommended framework for financial disclosures on climate-related risks and opportunities by companies and investors. The Task Force recommended that organisations across sectors and jurisdictions provide disclosures in their public annual financial filings in four areas:

- **Governance:** Organisations should describe how climate related risks and opportunities are assessed and managed by an organisation's management team and overseen by its board.

- **Strategy:** Organisations should disclose the actual and potential impacts of climate related risks and opportunities on their businesses, strategy and financial planning. They should describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

- **Risk Management:** Organisations should disclose how they identify assess and manage climate related risks.

- **Metrics and Targets:** Organisations should disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material. They should disclose their greenhouse gas (GHG) emissions, and the related risks.[68]

Benefits of disclosures

49. Our inquiry identified benefits of implementing TCFD recommendations fully in the UK. 'London's systemically important role' in the global financial system, means that 'the UK Government has an opportunity to green finance in a way that no other

66 https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/10/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf
67 https://www.ft.com/content/0c485f68-96eb-11e7-a652-cde3f882dd7b
68 The Task Force on Climate-related Financial Disclosures, Final Report (June 2017)

government has', according to Dr Ben Caldecott of Oxford University's Sustainable Finance Programme. He says that 'getting markets to integrate climate change and the environment into decision-making will help financial institutions appropriately manage risk. This will help them to reduce losses and will also improve the resilience of the financial system as a whole'.[69] Furthermore, we heard that:

- Transparent reporting of companies' exposure to climate-related risk and opportunities enables financial markets to function more efficiently.[70]
- Requiring companies to conduct scenario analysis and publish climate-related risk disclosures would put climate change on the boardroom agenda.[71]
- By reporting and actively managing climate risk, certain companies and directors could help reduce their exposure to potential future liability litigation.[72]
- Analysing climate risks and opportunities will allow UK businesses and investors to position themselves to benefit, rather than be left behind, in the transition to a low-carbon economy.[73]
- Overall TCFD disclosure will encourage longer term thinking across the investment chain.[74]

Finally, as Bank of England Governor Mark Carney has put it, 'having information on [climate] risks would allow investors to back their convictions with their capital, whether they are climate optimists or pessimists, evangelicals or sceptics.'[75]

50. During our inquiry we looked at how recommendations on climate-related financial disclosures could be implemented in the UK. We asked several key questions about this process:

- Who should the Government be encouraging to make climate-related disclosures?
- What support can be given to help organisations with climate change scenario analysis to minimise the cost of compliance?
- Should climate-related financial disclosures be mandatory or voluntary?
- Or can climate risk reporting be implemented using existing regulatory frameworks, laws and guidance? Is new legislation needed?

We will examine the evidence we received answering these questions in the following sections.

69 Oxford Sustainable Finance Programme (GFI0034)
70 E3G (GFI0016)
71 Summary of roundtable event on 9th January 2018
72 Oxford Sustainable Finance Programme (GFI0034)
73 https://www.ft.com/content/51e60772-5bf5-11e7-b553-e2df1b0c3220
74 Aviva (GFI0024)
75 https://www.ft.com/content/51e60772-5bf5-11e7-b553-e2df1b0c3220

Who should TCFD apply to?

51. The Task Force on Climate-related Financial Disclosures (TCFD) developed four widely adoptable recommendations on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions. Its final report stated that:

> 'Importantly, the Task Force's recommendations apply to financial-sector organizations, including banks, insurance companies, asset managers, and asset owners. Large asset owners and asset managers sit at the top of the investment chain and, therefore, have an important role to play in influencing the organizations in which they invest to provide better climate-related financial disclosures.'[76]

52. The Government said in its submission to us that it recognises 'the wide range of organisations that these recommendations cover', but that it is 'conscious of increasing burdens on UK businesses'. It says it 'has endorsed the recommendations and encouraged all publicly-listed companies to implement them, in line with the TCFD's voluntary approach.'[77] We asked Ministers what action they had taken to 'encourage' companies to adopt the recommendations, but they were unable to list any specific actions.[78]

53. Sixty-three UK incorporated organisations have so far committed to support or adopt the TCFD recommendations, according to the Climate Disclosures Standards Board (see appendix 1 for full list) including both publicly-listed companies and pension funds.[79] Of the 25 largest pension funds, which we wrote to as part of the inquiry, seven schemes have committed to report in line with the TCFD recommendations, another eight say they are considering how to respond and ten schemes have no current plans to report in line with TCFD.

54. We asked the Chair of HSBC's pension fund and advisor to the Task Force on Climate-related Financial Disclosures, Russell Picot, whether it was appropriate to focus solely on listed companies:

> 'If this is going to work, we need all the players in the investment chain to play their part. So obviously listed companies and companies that access the public equity or debt markets need to produce high quality, quantitative data and information about climate risk. At the other end of the spectrum, the asset owners need to be including climate risk in their risk management and they need to be asking for information about climate risk in their portfolios. Therefore, you create the tension in the investment chain for the asset owners pulling on the chain through the fund managers who ask the listed companies for the information. I focus at least as much on the role of the asset owners and the need for asset owners to be seeking this information, to be reflecting on it and publishing in either accounts or through stewardship reports or something to their own beneficiaries.'[80]

76 The Task Force on Climate-related Financial Disclosures, Final Report (June 2017)
77 HM Treasury and Department for Business Energy and Industrial Strategy (GFI0027)
78 Q457–Q462
79 Information supplied to the committee by the Climate Disclosure Standard's Board in an email (April 2018)
80 Q215

55. However, the BAE Systems Pension Fund argued in its letter to us that requiring asset owners to report in line with TCFD would not be of use to pension savers:

> 'As a Trustee Board we are committed to communicating clearly with our members and we take great care and effort in doing so in an appropriate way. Engaging pension scheme members is a challenge faced by all pension schemes and we remain to be convinced that providing members with information suggested by the TCFD report will improve member outcomes. Greater clarity is needed in explaining what members would do with this additional information.'

56. There are 89 Local Government Pension Scheme (LGPS) funds in England and Wales. In recent years, the Government has looked for ways to achieve economies of scale in LGPS funds—with the primary aim of improving returns and reducing deficits but also enabling greater capacity for investment in infrastructure. This has resulted in proposals to pool LGPS funds announced in the Summer Budget 2015.[81] Eight new investment pools have been proposed so far. The industry-led Green Finance Taskforce established by the Government said that requiring public sector investments to be held to the TCFD recommendations 'in due course' would protect public investment against climate impacts and further build on UK expertise in low carbon financing.[82]

57. **Implementing the recommendations of the Task Force on Climate-related Financial Disclosures would put climate change on board room agendas and provide companies and investors with the information to take a longer-term perspective when it comes to the potential risks and opportunities it poses. The Government says it has 'encouraged publicly-listed companies' to report on the risks and opportunities of climate change, but Ministers do not appear to have taken any specific actions to do this other than publicly endorsing the recommendations.**

58. **Given the long time-scales and large sums of money involved in the management of pension funds, it is important that climate risk reporting applies equally to asset owners (such as pension funds) and their investment managers, not just listed companies as the Government has suggested. Requiring asset owners to report would ensure that trustees and investment managers actively engage with how companies are managing climate change risks.**

59. ***The full range of financial entities listed by the TCFD should be making climate-related financial disclosures. We need to see a 'green thread' running through the investment chain. This would ensure that climate risks and opportunities are considered at every point in the investment chain. The Government should set out in its response to this report what specific actions it will take to encourage take up.***

How the top 25 pension funds manage climate change risk

60. In late February we wrote to the 25 largest UK pension funds, responsible for some £550bn of long term investments, to seek evidence as to how climate change risk was—or was not—incorporated into these investors' long-term investment decision-making.[83]

81 http://www.pensionsage.com/pa/BLUE-BUDGET-2015-Govt-to-work-with-LGPS-to-pool-investments.php
82 Green Finance Taskforce, Accelerating Green Finance (March 2018)
83 https://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/news-parliament-2017/green--finance-chairs-coments-17-19/

The Committee also sent the letter to the Parliamentary Contributory Pension Fund and received an unsolicited response from the London Pension Fund Authority. We thank all 27 funds for their responses, which are now published on our website. We split the responses into three broad categories (detailed in a table in an Annex to this report).

61. A 'more engaged' group had clearly identified climate change as a long-term risk (and opportunity), often some years ago, and were actively managing it. This group tended to demonstrate a strong sense of organisational purpose. Although the funds manage multiple risks, climate change was identified as particularly challenging and in need of specific attention as a long-term threat to beneficiaries' pensions. This group showed a strong commitment to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). One respondent—the West Midlands Pension Fund—had already reported in its 2017 Annual Report on the climate-related risks and opportunities facing its fund in line with the TCFD recommendations.

62. Several of the funds in this group had carried out carbon footprint analysis, recognising the financial risk that climate policy evolution may bring. A few had participated in an investment consultant's research study Investing in a Time of Climate Change to gain insight into the investment implications of climate change. Many in this group had sought investment opportunities, often unlisted, that gave them exposure to renewable energy, infrastructure and the transition to the low carbon economy. Their boards, or equivalent governance body, were noticeably involved. Climate change was placed on the risk register by some, or specifically referenced in the Statement of Investment Principles. Government and regulatory activity tended to be seen as supporting the desired direction of travel rather than as unhelpful intervention. The Pensions Regulator's integrated risk management framework (combining sponsor covenant, funding and investment) was referenced by some, with actuarial advice used as input to this risk management assessment. It was encouraging to note references to the sponsor covenant, with climate change identified by some trustees as a relevant risk factor in this context. Many of the funds in this group showed extensive engagement with, and contribution to, the collaborative initiatives of organisations such as Institutional Investors Group on Climate Change (IIGCC), CDP (formerly known as the Carbon Disclosure Project) and the Transition Pathways Initiative (TPI). Many of these responses referenced future commitments, as well as what had already been achieved. It was notable that the Local Authority pension funds were all amongst the 'more engaged' group.

63. The second group had engaged with the issues and were making some progress. They acknowledged climate change as a risk, but often saw it as one of the many ESG factors they had to contend with. Policies might be in place, but there was less evidence of significant activity around implementation of climate risk management. There was greater caution about committing to TCFD reporting, though the evolution of TCFD-aligned reporting for Principles of Responsible Investment (PRI) signatories under the PRI annual Reporting Framework was sometimes cited. There was a greater tendency to see regulation in this area as something of a burden, rather than supporting investors to meet their responsibilities in addressing the urgent challenge of climate change.

64. The last group were less engaged. They tended to see climate change risk as another Environmental Social and Governance (ESG) factor. Climate change did not appear to have been considered specifically as a strategic risk by the Board. Management of climate change risk was often left to investment managers. There was little reported evidence of

strategic input or oversight from the pension scheme's governing body. This group had no current plans to report on climate risks and opportunities in line with recommendations on climate-related financial disclosures. Some of the pension funds with a sponsoring employer likely to be directly affected by the transition to a low-carbon economy were in this group.

65. As previously noted, seven schemes have committed to report in line with the TCFD recommendations, indeed one of those has done so already. Another eight are actively considering how to respond, but ten schemes have no current plans to report in line with TCFD.

66. **It is apparent from the responses of the 'more engaged' group of pension funds to the Committee's letter that significant progress is being made by some pension funds, including commitments to TCFD reporting. However, a minority of the top pension funds do not appear to have given climate change much strategic thought. This creates risks for beneficiaries. We believe this patchwork approach shows the need for TCFD reporting to become a mandatory requirement for all large asset owners by 2022.**

Supporting reporters on scenario analysis

Scenario Analysis: a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, scenarios allow an organization to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.

67. To understand the potential risks and opportunities that climate change poses to an organisation it is necessary to analyse a range of possible scenarios—modelling possible temperature rises and the market, social and regulatory response. The Task Force for Climate-related Financial Disclosures (TCFD) recommended that organisations incorporate scenario analysis into their strategic planning process:

> 'The disclosure of organizations' forward-looking assessments of climate-related issues is important for investors and other stakeholders in understanding how vulnerable individual organizations are to transition and physical risks and how such vulnerabilities are or would be addressed. As a result, the Task Force believes that organisations should use scenario analysis to assess potential business, strategic, and financial implications of climate-related risks and opportunities and disclose those, as appropriate, in their annual financial filings.'[84]

68. The Task Force provides guidance to organisations on using scenario analysis as a tool, but it does not provide a set of suggested scenarios—although it says organisations should include a 2°C or lower scenario in line with the Paris Agreement.[85] The Bank of England said that scenario analysis and planning is the area of TCFD with the clearest need for further development.[86] Alex White from the Aldersgate Group described feedback they had received that some companies 'did not know where to start' with scenario analysis:

84 The Task Force on Climate-related Financial Disclosures, Final Report (June 2017)
85 https://www.fsb-tcfd.org/wp-content/uploads/2017/06/TCFD-Public-FAQs-062817.pdf
86 Bank of England (GFI0038)

> '… in the conversations we have had so far with corporates who are looking at implementing TCFDs in their own company practice, there is still a lot of uncertainty as to how that will look for them. One of the very positive recommendations in the TCFDs is the forward-looking scenario analysis. Where carbon footprinting looks backwards, this looks at the forward risks, which is very useful to both the company and the investor, but at the moment lots of companies are saying, "What scenarios do we choose? You say a 2-degrees scenario but what does that look like? What does that world look like? What timeline should we be working with? How do we do this?" I think there needs to be a great deal of guidance from Government.'[87]

Dr Ben Caldecott said however that scenario analysis was already widely used by business:

> 'There are clearly ways in which Government regulators can support the preparers to become familiar with scenarios and some of the recommendations of the TCFD, but I would just say that a lot of businesses do do scenario planning and they do think about managing a whole bunch of different risks. In the spirit of the TCFD, this should be integrated completely into that existing scenario analysis and planning that they do. I don't think it need be such a burden if it is seen in that way.'[88]

Likewise, the research and communications consultants Culmer Raphael & Iken Associates argued that 'it is not identification of future climate impact scenarios that is the most challenging aspect, but rather the assessment of likely financial impacts at an organisational level.' It points out that large banks and insurers already use a scenario-based approach to calculate capital requirements.[89]

Reference scenarios

69. Evidence we received suggests that there is a role for public bodies or international agencies to play in providing off-the-shelf scenarios to help companies and investors consider climate change risks for their businesses. Carbon Tracker noted that for disclosure to be made useful for investment decisions the outputs need to be consistent and comparable because investors need to understand the relative risks facing companies. 'Only then can they model how these risks can and should be priced.'[90] It argued that this requires the use of a reference scenario that should be set within the regulatory structure to ensure disclosures are comparable.

70. Aviva said that Government should work with regulators and the Committee on Climate Change 'to develop a set of standard base scenarios for companies to draw on so that investors can be confident that the analysis is consistent, comparable and robust'.[91] The London Stock Exchange Group, ClientEarth and Carbon Tracker all suggested that the UK could support companies and reduce the costs of compliance by producing reference or baseline scenarios, which companies and investors could then supplement with their own analysis:[92]

87 Q27
88 Q224
89 Iken Culmer Raphael (GFI0010)
90 Carbon Tracker Initiative (GFI0005)
91 Aviva (GFI0024)
92 Q222 and Q336

> 'A reference scenario not only aids the markets, it reduces costs to issuers by providing the building blocks for disclosure. The use of a reference scenario, built upon climate targets, would be the first of its kind for capital markets disclosure, setting the UK out as a leader in the field, whilst minimizing the costs of listing on the UK's exchanges.'[93]

71. Both the Intergovernmental Panel on Climate Change and the International Energy Agency produce scenario sets outlining possible future pathways for climate change and global energy use.

72. ***To ensure that climate-related financial disclosures are comparable and reduce the cost of reporting for companies and investors, the Government should work with the Committee on Climate Change to determine the appropriate way to produce a range of baseline policy and climate change scenarios that can be used off-the-shelf as reference scenarios by companies and asset owners.***

Voluntary vs mandatory

73. There was debate during the inquiry as to whether reporting against the TCFD standards should remain voluntary or be made mandatory. The Government acknowledged in its submission that 'the effectiveness of the TCFD recommendations will necessarily be contingent on their adoption by industry and by the accurate, consistent application of the disclosure framework'.[94] Nevertheless, at present it is only advocating a voluntary approach to implementation. The Government has asked for views on whether in the long-term any of the TCFD-recommended disclosures should become mandatory, as part of the Department for Business Energy and Industrial Strategy's (BEIS) consultation on Streamlined Energy and Carbon Reporting. The Minister of State for Energy and Clean Growth Rt Hon Claire Perry MP said at her appearance before us that the Government would:

> 'review the results of the consultation and review the work of the Green Finance Taskforce and come to a conclusion' on how 'to make the [TCFD proposals] stick in a way that is not burdensome and does not create lots of disincentives'.[95]

74. The Bank of England did not challenge the Government's current view on TCFD implementation, saying that at this stage it is important for TCFD adoption to be voluntary:

> 'the TCFD designed their recommendations with the aim of creating a virtuous circle whereby firms voluntarily adopt the recommendations, investors respond by making clear which disclosures are of particular value, and firms learn by doing as good practice emerges. The Task Force intends to report on the first year of implementation to the G20 Leaders' Summit in Argentina in November 2018, including by identifying good practice which may have wider application. Good quality disclosures will ultimately be driven by firms innovating and investor pressure incentivising firms to take their lead from the best quality disclosures.'[96]

93 Carbon Tracker Initiative (GFI0005)
94 HM Treasury and Department for Business Energy and Industrial Strategy (GFI0027)
95 Q463–465
96 Bank of England letter to the Chair, 1 February 2018

75. However, the prevailing view in the evidence we received was that it was necessary for TCFD reporting to be made mandatory if reporting was to become widespread and generate sufficient comparable information.[97] It was argued that companies and investors should be given a period of two to five years to adjust and develop their reporting practice, but that the TCFD's recommendations would eventually need to be required on a 'comply or explain' basis.[98]

Comply or explain is a regulatory approach to corporate governance and financial supervision whereby rather than setting out binding laws, financial regulators set out a code, which listed companies may either comply with, or if they do not comply, explain publicly why they do not. The principle of 'comply or explain' means that companies are accountable to shareholders who can exercise sanctions rather than being accountable to a regulator.[99]

76. The London Stock Exchange Group (LSE) told us it is supportive of the Government's announcement endorsing the TCFD proposals and recommended a 'comply or explain' approach to implementation. It says HM Government's approach to disclosure by companies had been well balanced and supports the UK's 'reputation for robust and responsible reporting standards'. The LSE said:

> 'While we do not suggest additional prescriptive corporate reporting burdens on listed companies, there are some areas where carefully designed government action would help catalyse better data for investors. We recognise the effectiveness and market leadership of the "comply or explain" approach adopted in the UK with regard to disclosure and governance standards, and recommend that the same approach be followed in the implementation of the TCFD recommendations both for financial institutions and listed companies.'[100]

77. Carbon Tracker said that although it recognized 'the value in initially affording organisations some flexibility', it said that 'to deliver consistent, comparable and decision-useful disclosure' there would have to be a mandatory element.[101] Echoing this point, E3G said that 'patchy and inconsistent information is not useful to investors, lenders or underwriters'.[102] ClientEarth added that without the threat of enforcement the 'incentives for companies to comply with TCFD recommendations in a comprehensive and consistent way may be limited'.[103]

78. Durham University Business School pointed out in its submission that there is 'a significant body of academic research which finds that companies apply voluntary reporting recommendations and frameworks selectively' and that mandatory disclosures which are not enforced, are not complied with.[104] It cited poor reporting following the

97 Aldersgate Group (GFI0003), Aviva (GFI0024), Carbon Tracker Initiative (GFI0005), ClientEarth (GF0012) Christian Aid (GFI0015), Durham University Business School (GFI0036), Green Alliance (GFI0011), Iken Culmer Raphael (GFI0010), Q27, Q56, Q218
98 Aldersgate Group (GFI0003), UKSIF (GF0002), Q58-Q60
99 http://lexicon.ft.com/Term?term=comply-or-explain
100 London Stock Exchange Group (GFI0021)
101 Carbon Tracker Initiative (GFI0005)
102 E3G (GFI0016),
103 ClientEarth (GFI0012)
104 Durham University Business School (GFI0036)

Companies Act 1985 which had required organisations with more than 250 employees to disclose details about their employment of disabled persons. Aviva and Christian Aid also cited evidence that 'voluntary initiatives do not work'.[105] Christian Aid said that the introduction of carbon emissions reporting illustrated this:

> 'The Climate Change Act 2008 gave powers to introduce mandatory reporting by all companies within 4 years. Research found that a voluntary initiative by companies started well but plateaued quickly. Investors complained that this voluntary patchwork of information did not create a level playing-field or provide consistent enough information to guide investment choices. […] A government consultation in 2012 showed overwhelming support for mandatory reporting, and the government finally introduced mandatory reporting in April 2013–though only for listed companies. As the understanding and acceptance of climate risk has moved on dramatically since then, there is no justification for the UK pursuing a voluntary approach [on TCFD].[106]

79. The Aldersgate Group argued that a voluntary approach will not galvanise the market quickly enough and ensure full comparability for market participants. After holding a roundtable event in January to discuss TCFD with large businesses, they raised a number of concerns that companies have about implementation. Attendees said that greater streamlining between TCFDs and other forms of reporting would make the administrative burden on companies more manageable. Corporate attendees at its event felt that they did not have enough information to undertake scenario analysis or to understand what scenarios are appropriate (as discussed in the previous section). The Aldersgate Group suggested the government takes a transitional approach, allowing companies to adjust to TCFD-style reporting. It says a date should be set for mandatory reporting aligned with the TCFDs for all qualifying companies with a roadmap and interim milestones to allow industry to prepare and streamline their reporting processes.[107]

Using new legislation or the existing regulatory framework

80. We heard that there are two ways that climate-related reporting could effectively be made mandatory. The Government could introduce new laws or the Government and regulators could update corporate governance guidance and use existing laws more effectively. Alice Garton of ClientEarth explained:

> 'There could be two ways, either a new law, such as [the French] Article 173, or we use the existing framework. Our view is that climate risk should be treated like any other business risk and it should be monitored by companies within their existing governance procedures. We should use the existing corpus of rules and guidance primarily … For example, the Corporate Governance Code consultation coming up at the moment, and the Stewardship Code consultation, the FCA has a number of ways that

105 Aviva (GFI0024), Christian Aid (GFI0015)
106 Christian Aid (GFI0015)
107 Aldersgate Group (GFI0003

> they can integrate climate risk into their existing corpus. They send "Dear CEO" letters around existing risks; for example, cyber security. They could do a similar thing on climate change.'[108]

Article 173: In 2015, France became the first country to introduce mandatory climate-related risk reporting when it passed the Energy Transition for Green Growth Act, which also included measures to reduce emissions, shift to renewables and increase the price of carbon. Article 173 of the Act required organisations with a balance sheet of more than 500 million euros—including asset managers, insurance companies, listed companies, and pension and social security funds—to disclose in their annual reports how they integrate climate change concerns and Environmental, Social and Governance (ESG) criteria into their investment policies and risk management. The regulation concerns all asset classes: listed assets, venture capital, bonds, physical assets, etc. The law came into force on 1 January 2016 and is being implemented on a "comply or explain" principle, providing investors with broad flexibility in choosing the best way to fulfil the law's objectives.

81. Some witnesses expressed the view that new legislation could be used to implement TCFD recommendations or to provide a backstop if regulators, companies and investors fail to implement TCFD fully by the early 2020s.[109] Most of the evidence we received, however, favoured using existing laws and governance mechanisms to implement TCFD, for example, by requiring reporting using existing governance codes and guidance on a 'comply or explain' basis. Some argued that the existing Companies Act 2006 already made climate risk reporting mandatory, where risks are clearly financially material, and that this could be better enforced in order to implement TCFD.

The Companies Act 2006

82. ClientEarth noted that the advantage of new laws like Article 173 is that 'they immediately get on the boardroom agenda, because a law pierces through the everyday busyness of corporates and directors', but said that the UK already has a 'world-leading' corporate governance law in the form of the Companies Act 2006.[110] It explained that Section 172 of that Act requires 'companies in their annual reports to report on the principal risks and uncertainties to their business, and long-term factors and trends that affect their businesses, where they are material.' Some submissions argued that the Government should use the Companies Act to implement the TCFD recommendations on climate-related financial disclosure by clarifying that existing disclosure rules do apply to the physical and transition risks associated with climate change.[111]

83. Carbon Tracker argued that for some companies 'compliance with the Strategic Report components of the Companies Act 2006, which requires disclosure of principal risks and uncertainties, should result in the identification of climate change or the energy transition as a material risk'.[112] However, the environmental lawyers ClientEarth told us

108 Q218
109 E3G (GFI0016), Overseas Development Institute (GFI0018), Q218
110 Summary of roundtable event on 9th January 2018
111 Carbon Tracker Initiative (GFI0005) ClientEarth (GFI0012), Principle for Responsible Investment (GFI0029)
112 Carbon Tracker Initiative (GFI0005)

that it had seen 'a number of examples of failures by regulators, such as the Financial Reporting Council (FRC), to properly scrutinise and enforce existing corporate disclosure law as they relate to climate change.'[113] Alice Garton from ClientEarth told us:

> 'Our view, as lawyers, is that there are more than enough laws out there. They are just not being used effectively, and what we are seeing is that climate change has moved from an ethical environmental issue to a core business issue. That core message is not being picked up by regulators themselves because they are also caught in short-term horizons.'[114]

The **Companies Act 2006** provides a comprehensive code of company law for the UK, codifying Directors' duties and the legal rules for the administration of companies. The Act includes extensive reporting and disclosure requirements for 'quoted companies', and created a separate reporting regime for 'small companies'. It requires disclosure of principal risks and uncertainties.

84. Evidence to the inquiry suggested that there would need to be active participation of the UK financial regulators to update guidance on this. Carbon Tracker said the Government's endorsement is a positive first step, but 'it now needs to move from high-level government support to specific support and active involvement from financial regulators, such as the FCA.'[115] The Principles for Responsible Investment (PRI) called on the Government to 'explicitly clarify that where climate [change] is identified as a material risk, it should be included within companies' annual reports'.[116] It suggested that new TCFD guidance is published jointly by the Government and BoE, FRC, FCA and tPR. This guidance could then be integrated into and referenced in the relevant UK rules and codes, such as the listing rules, prospectus rules, Corporate Governance Code and Stewardship Code.

Recommendations of the Green Finance Taskforce

85. The industry-led Green Finance Taskforce, established by the Government as part of the Clean Growth Strategy, published a report in March 2018 recommending that the UK Government and its financial regulators should integrate the TCFD recommendations throughout the existing UK corporate governance and reporting framework.[117] It called on the Government and relevant financial regulators to clarify in their guidelines that disclosing climate change risks is already mandatory under existing law and practice where they are financially material. In 2020 the Government should then review the extent of disclosure to monitor market adoption amongst both issuers and users.[118]

86. **We can see the advantages in giving companies and investors time to adapt and develop how they report on climate risks and opportunities. But only if reporting is mandatory are we likely to see comprehensive and comparable climate risk disclosures.**

113 ClientEarth (GFI0012)
114 Q232
115 Carbon Tracker Initiative (GFI0005)
116 Principle for Responsible Investment (GFI0029)
117 Green Finance Taskforce, Accelerating Green Finance (March 2018)
118 Green Finance Taskforce, Accelerating Green Finance (March 2018)

87. ***The Government should set a deadline that it expects all listed companies and large asset owners to report on climate-related risks and opportunities in line with the TCFD recommendations on a comply or explain basis by 2022. The UK's existing framework of financial law and governance could and should be used to implement climate-related risk reporting as the Green Finance Taskforce has recommended. For example, the Government should issue guidance making it clear that the Companies Act already requires companies to report on climate change where it is a material financial risk to their business. Companies and investors with high exposure to carbon intensive activities should already be reporting on climate risks in their annual reports as a matter of course.***

4 Financial regulators and climate risk

88. Implementing recommendations on climate-related risk reporting will require the UK 's financial regulators to provide guidance and monitor how companies and investors disclose information on climate risks in annual financial filings and in communications to shareholders and relevant stakeholders. Our inquiry examined the role of the UK's financial regulators in overseeing how environmental risks are managed by companies and investors. We questioned representatives from the Bank of England, FRC, FCA and tPR on 20 February.

The UK has five financial regulators answering to different departments within Government and the Bank of England:

Financial Reporting Council (FRC)—working with the Department for Business, Energy and Industrial Strategy. The FRC is an independent quasi-regulatory private body that is delegated a mandate by the Government to set and oversee the UK's Corporate Governance and Stewardship Codes and UK standards for accounting, auditing and actuarial work

Financial Conduct Authority (FCA)—working with HM Treasury. The FCA is the is the conduct regulator for 56,000 financial services firms and financial markets in the UK and the prudential regulator for over 18,000 of those firms. In this role it regulates the providers of contract-based pensions.

The Pensions Regulator (TPR)—working with the Department for Work & Pensions. The tPR is the public body that protects workplace pensions in the UK. It is responsible for monitoring and enforcing rules on pension governance for trust-based pension schemes.

Prudential Regulation Authority (PRA)—within the Bank of England. The PRA is responsible for this prudential regulation and supervision of around 1,500 banks, building societies, credit unions, insurers and major investment firms.

Financial Policy Committee (FPC)—within the Bank of England. The (FPC) identifies, monitors and takes action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system.

89. Evidence to our inquiry suggested that there are inadequacies in how the rest of the UK's framework of financial regulation is currently monitoring and managing climate change risk. We heard for example, that the fragmented structure of UK financial regulation meant mandates and decision-making responsibilities were unclear when it came to monitoring how strategic risks like climate change are managed.[119] Several submissions also identified a lack of capacity and expertise on climate change and sustainability issues as a problem hampering effective monitoring of climate risk.

90. ClientEarth provided a list of the relevant guidance, rules and codes managed by each regulator that could be amended to embed environmental risk reporting into UK corporate Governance:

119 Carbon Tracker Initiative (GFI0005)

- Financial Reporting Council: UK Corporate Governance Code; Guidance on Risk Management, Internal Control and Related Financial and Business Reporting; Guidance on the Strategic Report; UK Stewardship Code
- Financial Conduct Authority: FCA Handbook
- The Pensions Regulator: Investment Guidance for Defined Benefit Pension Schemes; Guide to Investment Governance

In the following sections we will consider the role that each regulator could have in monitoring how climate change risks are managed.

Prudential Regulation Authority

The Prudential Regulation Authority (PRA) is part of the Bank of England and is responsible for promoting the 'safety and soundness' of around 1,500 systemically important banks, building societies, credit unions, insurers and major investment firms. Prudential regulation rules require financial firms to hold sufficient capital and have adequate risk controls in place.

91. The Bank of England's Prudential Regulation Authority is the only UK financial regulator to have reported on the impact that climate change might have on its regulatory remit. In 2015, as part of the second round of adaption reporting initiated by the Climate Change Act 2008, the Prudential Regulation Authority (PRA) prepared a report into the impact of climate change on the UK insurance sector.[120] This aimed to provide a framework for considering the risks arising from climate change through the lens of the PRA's statutory objectives in relation to insurers—i.e. the safety and soundness of firms and appropriate protection of policyholders. The PRA Report identified three primary channels through which climate-related risks to the financial sector might arise: physical risks; transition risks and liability risks—as discussed in chapter 1. The Bank of England told us that the PRA is currently undertaking a review of climate-related risks to the UK's banking sector, which will support its involvement in the third round of adaptation reporting. The Bank says this will be published in the coming months.

Financial Reporting Council

The Financial Reporting Council (FRC) is an independent quasi-regulatory private body that is delegated a mandate by the Department for Business, Energy and Industrial Strategy to set and oversee the UK's Corporate Governance and Stewardship Codes and UK standards for accounting, auditing and actuarial work. It is supposed to monitor the quality of corporate annual reporting and auditing. It operates independent disciplinary arrangements for accountants and actuaries, as well as overseeing the regulatory activities of the accountancy and actuarial professional bodies. Many of these responsibilities are undertaken on a voluntary basis with the agreement of the market and the FRC's stakeholders.

120 Bank of England Prudential Regulation Authority, The impact of climate change on the UK insurance sector: A Climate Change Adaptation Report by the Prudential Regulation Authority (September 2015)

92. The Financial Reporting Council will have a key role to play in implementing TCFD and potentially monitoring the disclosure of climate-related risks and opportunities in strategic reports. There are concerns however about its robustness as a regulator. The FRC has faced mounting criticism in recent months after UK corporate governance has come under scrutiny in the wake of the Tesco accounting scandal, and the collapse of BHS and Carillion. Critics have alleged that the FRC's:

> ' … ability to scrutinise auditors has been impaired by its heavy dependence on the very profession that it is tasked with overseeing. This has resulted from an opaque and piecemeal statutory basis; weak governance structures; funding that depends on the audit profession's discretion; and poor public transparency.'[121]

93. During our inquiry we heard criticism of how the FRC has monitored company reporting on climate risk. The Climate Disclosure Standards Board raised concerns that the Financial Reporting Council is not taking a proactive role in enforcing existing financial disclosure rules. It said that reform and capacity building at the FRC is required so that existing rules are enforced where material climate-related risks should already be disclosed.[122] ClientEarth criticised the FRC for providing minimal guidance on how companies should be reporting on environmental risks and for being 'slow to respond to complaints where companies have failed to disclose these risks.'[123] It highlighted a case from August 2016, where it had filed a complaint with the FRC against two oil and gas exploration companies—Cairn Energy (Cairn) and SOCO International—for making inadequate mention of climate change in their Strategic Reports. In response to the complaints, Cairn and SOCO included sections on climate change risks in their strategic reports the following year. The FRC closed the complaint without ruling on whether their original reports were compliant. ClientEarth says that in the complaints it submitted, it asked the FRC to make a public statement to clarify 'how climate risk must be material or, more likely than not, is material to oil and gas companies and they did not'.[124]

Section 456 of the Companies Act 2006 gives the Financial Reporting Council the power to apply for a court order if a company's accounts or reports are found to be defective, to force the company to prepare revised accounts or a revised report. ClientEarth has said that it believes this power has never been used by the FRC.

94. We asked the FRC CEO, Stephen Haddrill, about the complaint that ClientEarth had lodged and whether this was evidence that the FRC was not policing company reporting adequately:

> 'I don't think so. We review about 10% of the listed company reports every year. That is what we have the resources for and that is a reasonable proportion. If something comes up in the other 90%, then we are indebted to the people who bring those things to our attention. If we felt that the company had really abused the rules, we could take enforcement action against any directors who were accountants. If we feel that the matter can

121 Sarasin & Partners LLP, Local Authority Pension Fund Forum, UK Shareholders Association, Investors require a robustly independent audit regulator (October 2017)
122 Climate Disclosures Standards Board (GFI0008)
123 ClientEarth, Financial Regulators and Climate Risk (April 2017)
124 Q229

> be most readily addressed by correcting the information in the annual report or adding additional information to the annual report, and that can be done within a matter of months, from the investors' point of view, that seems to me to be the most satisfactory outcome, because the actual heavy-duty enforcement cases could take a considerable period of time.'[125]

Corporate Governance Code

95. Several submissions to the inquiry identified the FRC's current review of the Corporate Governance Code and its forthcoming review of the Stewardship Code as opportunities to mainstream climate-related financial disclosures into UK regulation.[126] In December 2017, the Financial Reporting Council announced a review of the UK Corporate Governance Code and issued a draft revised Code for listed companies. The consultation closed on 28 February 2018. The revised Corporate Governance Code proposed by the FRC during its consultation does not explicitly mention environmental risks like climate change. However, it does suggest requiring boards to assess how the company preserves value over the long term and maintain the sustainability of the company's business model:

> 'Provision 1. The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy.'[127]

The FRC's proposed new guidance (to accompany the revised Code) encourages company boards to consider their duty under Section 172 of the Companies Act 2006, which includes having regard to the impact of the company's business on the community and the environment (all UK incorporated companies whether listed or not are bound by Section 172). The Committee on Climate Change (CCC) has recommended to Government that the FRC's Stewardship Code should ask investors to consider company performance and reporting on adapting to climate change.[128]

96. On 17 April 2018, the Government launched an independent review of the Financial Reporting Council (FRC) led by Sir John Kingman. The Government says this will 'assess the FRC's governance, impact and powers, to help ensure it is fit for the future' and 'aims to make the FRC the best in class for corporate governance and transparency.'[129] The review is due for completion by the end of 2018.

Financial Conduct Authority

97. The Financial Conduct Authority will play a key role in monitoring climate risk disclosures as it oversees the information that is made available when companies wish to sell shares or debt through an Initial Public Offering (IPO) on the London Stock Exchange and in subsequent capital raisings and/or major transactions. Alongside the FRC, the FCA

125 Q360
126 Aviva (GFI0024) Committee on Climate Change (GFI0004), E3G (GFI0016), Principle for Responsible Investment (GFI0029)
127 Financial Reporting Council, Proposed Revisions to the UK Corporate Governance Code (December 2017)
128 Committee on Climate Change (GFI0004)
129 https://www.gov.uk/government/news/government-launches-review-of-audit-regulator

also oversees listed companies' ongoing provision of information to the share and debt markets. The FCA's role in regulating the financial firms that provide contract-based pensions, discussed in Chapter Three, also means that understanding climate change risk is important for it to fulfil its remit.

98. There is evidence that the Financial Conduct Authority needs to improve its approach to climate change risks. ShareAction pointed out that the FCA has not carried out an assessment of the impact of climate change on the firms and markets it oversees or issued guidance on the management of climate risk in the market sectors it regulates.[130] The FCA takes a risk-based approach to fulfilling its objectives and the physical impacts of extreme weather and flooding linked to climate change was identified as a risk in the FCA's latest Risk Outlook in its Business Plan 2017/18. However, its risk outlook made no mention of the liability and transition risks identified by the Bank of England and others, as a potential threat to financial stability. The language used in the FCA risk outlook would suggest the FCA perceives the risk as being confined to the insurance sector in any impact it may have on financial services (and risks to FCA objectives). Following the Financial Conduct Authority's appearance before us on the 20th February we are not convinced that the regulator understands the material risks that climate change poses. The witness gave the impression that the FCA considers climate change as an ethical issue, rather than a material risk for pension schemes and businesses.[131]

Share Listing Rules

99. Share listing rules will also need to be updated if climate risk reporting is to be fully embedded in the UK's corporate governance framework. The Financial Conduct Authority (FCA) will also need to update its guidance and listing rules regulating how information is made available to market participants when companies offer stock on the London Stock Exchange through Initial Public Offerings (IPO).

100. When shares are offered for public sale on a stock exchange it is known as an Initial Public Offering (IPO). The IPO process regulated by the FCA plays a central role in helping companies raise capital in UK markets. The IPO process is complex and technical but broadly consists of the FCA:

- approving the admission of a company's shares or debt to the 'official list'; and
- vetting and approving a prospectus detailing aspects of the applicant company, its risks and prospects, financial details and a cut-off date for investor applications.

The directors of an applicant/listed company are responsible for the contents of a prospectus, but the FCA must approve it. The FCA can challenge a risk factor within a prospectus: 'where disclosures conflict with an issuer's eligibility or continuing obligations … '.[132]

101. Carbon Tracker and WWF both argued that there is an opportunity for the FCA to use its position on the International Organization of Securities Commissions to push for coordinated international securities regulation of climate-related financial disclosure based on the TCFD recommendations.[133]

130 ShareAction (GFI0013),
131 Q381
132 Financial Conduct Authority, UKLA Technical Note: Risk Factors (March 2015)
133 Carbon Tracker Initiative (GFI0005),WWF (GFI0022)

The Pensions Regulator

102. Considering climate change risk from the perspective of pension regulation is especially important given the long time-scales involved in pension saving. The Pensions Regulator has a role to play in encouraging and overseeing how pension schemes manage climate change risks because it provides guidance for trustees on how schemes should be governed, what information they must make available in annual reports and on the information that pension funds make available to members and prospective members. While we heard positive feedback that the Pensions Regulator had updated its guidance for pension trustees on considering environmental risks,[134] we were also told that tPR could be doing more to ensure that boards are starting to factor sustainability into investment decisions.[135]

103. ***The UK could help to galvanise global momentum on climate-related risk disclosures by announcing at the G20's leader summit in November that it will implement climate-related financial disclosures fully and that disclosures will be mandatory for large companies by 2022. During this timeframe the FRC's Corporate Governance Code and UK Stewardship Code and the FCA's listing rules should all be amended to require climate-related financial disclosures on a comply or explain basis.***

104. **Embedding climate risk reporting in all relevant UK corporate governance and reporting frameworks could negate the need for new legislation.** ***However, if UK regulators do not improve how they monitor the management of climate risk then the Government should pass new sustainability reporting legislation similar to France's Article 173.***

Adaptation Reporting

105. ClientEarth argues that because climate change is acknowledged by the Bank of England and Committee on Climate Change as posing potentially systemic risks to the finance sector, the UK's other financial regulators the FCA, FRC and tPR should join the PRA in considering the implications of climate risk for their operations, including their regulatory functions.[136] ClientEarth and Share Action suggested that the third round of Adaptation Reporting under the Climate Change Act, due to start in 2018, provides a timely opportunity for the rest of the financial regulators to fully assess the impact of climate change on both their own organisations and the firms they regulate.[137]

> 'Just as we are asking companies and investors to conduct scenario analysis on the way climate risk affects their particular business models, I see the adaptation reporting power as a kind of scenario analysis for financial regulators. It requires them to think in the long term about how this issue will affect those that they oversee, again, because the tragedy of horizon—as Mark Carney coined—applies equally to regulators as it does to those that they oversee. The adaptation reporting power is a way that they can

134 UKSIF (GFI0002)
135 Q232
136 ClientEarth, Financial Regulators and Climate Risk (April 2017)
137 ClientEarth (GFI0012), Share Action (GFI0013)

properly and thoroughly assess the implications to various sectors, and then determine which laws already apply and how they can be used more effectively.'[138]

The **Adaptation Reporting Power** was established by the Climate Change Act 2008 giving the Secretary of State for Environment, Food and Rural Affairs (Defra) the power to direct bodies with public functions to prepare a report containing:

An assessment of the current and predicted impact of climate change in relation to the organisation's functions;

A statement of the organisation's proposals and policies for adapting to climate change in the exercise of its functions and the time-scales for introducing those proposals and policies; and/or

An assessment of the progress made by the body towards implementing the proposals and policies set out in its previous reports.[139]

106. The Adaptation Reporting Power (ARP) aims to ensure that climate change risk management is systematically undertaken by reporting authorities. This helps ensure that public services and infrastructure are resilient to climate change, and to monitor the level of preparedness of key sectors to climate change.[140] The third five-year round of reporting under the ARP will take place from 2018. In March 2017, the Committee on Climate Change recommended that the third round of reporting (ARP3) be extended to cover all areas of the finance sector and be made mandatory.[141] On 12 February 2018, the Government opened a consultation on which bodies should be required under the Climate Change Act to prepare an Adaptation Report in the next round of ARP reporting and has 'approached financial regulators to ask them to consider participation in future'[142] We wrote to Defra before the consultation closed on 26 March to recommend that the Government uses its Adaptation Reporting powers under the Climate Change Act to make the Financial Conduct Authority, Financial Reporting Council and the Pensions Regulator produce Adaptation Reports.[143]

107. **Financial regulators have a responsibility to understand risks to financial stability and the financial institutions which they supervise. Evidence to our inquiry suggests that there are inadequacies in how the UK's framework of financial regulation is currently monitoring climate change risk management. Among financial regulators in the UK, only the Bank of England and its Prudential Regulation Authority have given the issue the serious attention it requires. The FCA, FRC and the Pensions Regulator must get up to speed.**

138 Q230
139 Department for the Environment, Food and Rural Affairs, Adapting to climate change: 2013 strategy for exercising the adaptation reporting power (July 2013)
140 Department for the Environment, Food and Rural Affairs, Adapting to climate change: 2013 strategy for exercising the adaptation reporting power (July 2013)
141 Committee on Climate Change, Adaptation Reporting Power second round review (March 2017)
142 Defra, A consultation on the government's proposed strategy for the third round of the climate change Adaptation Reporting Power (February 2018)
143 https://www.parliament.uk/documents/commons-committees/environmental-audit/correspondence/180322-Chair-to-Gove-Climate-change-adaptation.pdf

108. **There is a compelling case for other regulators to use the current round of adaptation reporting required by the Climate Change Act to integrate climate change risk management into their work. If financial regulators are to play a part in implementing the recommendations of the Task Force on Climate-related Financial Disclosures, it is important that they have gone through their own process of analysing the risks of climate change for their area of work and the firms they regulate. *The Secretary of State for Environment, Food and Rural Affairs should use his Adaptation Reporting powers under the Climate Change Act to require the Financial Conduct Authority, Financial Reporting Council and the Pensions Regulator to produce Adaptation Reports.***

Conclusions and recommendations

Climate risks & financial regulation

1. There is growing recognition that climate change—and the world's response to it—will pose financial risks over the coming years and decades. In the 40 to 50 years it will take today's young people to reach retirement age the projected rise in sea levels and the increased frequency and intensity of extreme weather events will have economic consequences for a range of investments—from food and farming to infrastructure, home building and insurance. Proper recognition and disclosure of these risks and opportunities would help financial markets to work more efficiently and will enable UK institutions and investors to position themselves to benefit from the low-carbon transition. (Paragraph 13)

2. The Bank of England and Governor Mark Carney have shown leadership on this issue, setting out the risks to financial stability and putting the issue on the agenda of the G20. The Government must do more to prevent the 'tragedy of the horizon' by ensuring that financial institutions, businesses and regulators factor long term environmental risks like climate change into financial decision making. (Paragraph 14)

Pension saving & environmental risk

3. Considering climate change risk from the perspective of pension regulation is especially important given the long timescales involved and the many hundreds of billions of pounds in UK pension schemes. Pension fund trustees have a fiduciary duty to act in the best interests of their beneficiaries. This include taking account of long-term risks, such as those arising from climate change. Although we heard examples of good practice during the inquiry, the Government also admitted in its evidence that there is widespread misunderstanding amongst trustees on the scope of their fiduciary duty in relation to environmental risks. (Paragraph 34)

4. We were deeply concerned to hear how structural incentives also promote the pursuit of short term returns by investment managers acting on behalf of pension funds, often leading to the neglect of longer-term considerations—including environmental sustainability and climate change-related risks and opportunities. *The Government should clarify in law that pension schemes and company directors have a duty to protect long-term value and should be considering environmental risks in light of this.* (Paragraph 35)

5. A worrying disparity currently exists in the guidance to trust-based pension schemes (regulated by the Pensions Regulator) and contract-based schemes (overseen by the Financial Conduct Authority) when it comes to considering environmental risk as a financial factor. This is the result of the FCA's apparent reluctance to act on the Law Commission's recommendations on clarifying the duty of contract-based schemes in relation to environmental, social and governance factors. *The FCA should rectify this by the end of the year.* (Paragraph 36)

6. Pension savers should be given greater opportunities to engage with decisions about where their money is invested. There is evidence that younger generations would often prefer to see their money invested in a fossil fuel-free manner. They should be given the opportunity to express this preference. (Paragraph 45)

7. *In its forthcoming consultation the Department for Work and Pensions should propose a change in the law to require pension fund fiduciaries to actively seek the views of their beneficiaries when producing their Statement of Investment Principles or Investment Strategy Statements. The DWP must set out guidance on how to ensure that evidence of members' views is gathered robustly.* (Paragraph 46)

Climate risk reporting

8. Implementing the recommendations of the Task Force on Climate-related Financial Disclosures would put climate change on board room agendas and provide companies and investors with the information to take a longer-term perspective when it comes to the potential risks and opportunities it poses. The Government says it has 'encouraged publicly-listed companies' to report on the risks and opportunities of climate change, but Ministers do not appear to have taken any specific actions to do this other than publicly endorsing the recommendations. (Paragraph 57)

9. Given the long time-scales and large sums of money involved in the management of pension funds, it is important that climate risk reporting applies equally to asset owners (such as pension funds) and their investment managers, not just listed companies as the Government has suggested. Requiring asset owners to report would ensure that trustees and investment managers actively engage with how companies are managing climate change risks. (Paragraph 58)

10. *The full range of financial entities listed by the TCFD should be making climate-related financial disclosures. We need to see a 'green thread' running through the investment chain. This would ensure that climate risks and opportunities are considered at every point in the investment chain. The Government should set out in its response to this report what specific actions it will take to encourage take up.* (Paragraph 59)

11. It is apparent from the responses of the 'more engaged' group of pension funds to the Committee's letter that significant progress is being made by some pension funds, including commitments to TCFD reporting. However, a minority of the top pension funds do not appear to have given climate change much strategic thought. This creates risks for beneficiaries. We believe this patchwork approach shows the need for TCFD reporting to become a mandatory requirement for all large asset owners by 2022. (Paragraph 66)

12. *To ensure that climate-related financial disclosures are comparable and reduce the cost of reporting for companies and investors, the Government should work with the Committee on Climate Change to determine the appropriate way to produce a range of baseline policy and climate change scenarios that can be used off-the-shelf as reference scenarios by companies and asset owners.* (Paragraph 72)

13. We can see the advantages in giving companies and investors time to adapt and develop how they report on climate risks and opportunities. But only if reporting is mandatory are we likely to see comprehensive and comparable climate risk disclosures. (Paragraph 86)

14. *The Government should set a deadline that it expects all listed companies and large asset owners to report on climate-related risks and opportunities in line with the TCFD recommendations on a comply or explain basis by 2022. The UK's existing framework of financial law and governance could and should be used to implement climate-related risk reporting as the Green Finance Taskforce has recommended. For example, the Government should issue guidance making it clear that the Companies Act already requires companies to report on climate change where it is a material financial risk to their business. Companies and investors with high exposure to carbon intensive activities should already be reporting on climate risks in their annual reports as a matter of course.* (Paragraph 87)

Financial regulators and climate risk

15. *The UK could help to galvanise global momentum on climate-related risk disclosures by announcing at the G20's leader summit in November that it will implement climate-related financial disclosures fully and that disclosures will be mandatory for large companies by 2022. During this timeframe the FRC's Corporate Governance Code and UK Stewardship Code and the FCA's listing rules should all be amended to require climate-related financial disclosures on a comply or explain basis.* (Paragraph 103)

16. Embedding climate risk reporting in all relevant UK corporate governance and reporting frameworks could negate the need for new legislation. *However, if UK regulators do not improve how they monitor the management of climate risk then the Government should pass new sustainability reporting legislation similar to France's Article 173.* (Paragraph 104)

17. Financial regulators have a responsibility to understand risks to financial stability and the financial institutions which they supervise. Evidence to our inquiry suggests that there are inadequacies in how the UK's framework of financial regulation is currently monitoring climate change risk management. Among financial regulators in the UK, only the Bank of England and its Prudential Regulation Authority have given the issue the serious attention it requires. The FCA, FRC and the Pensions Regulator must get up to speed. (Paragraph 107)

18. There is a compelling case for other regulators to use the current round of adaptation reporting required by the Climate Change Act to integrate climate change risk management into their work. If financial regulators are to play a part in implementing the recommendations of the Task Force on Climate-related Financial Disclosures, it is important that they have gone through their own process of analysing the risks of climate change for their area of work and the firms they regulate. *The Secretary of State for Environment, Food and Rural Affairs should use his Adaptation Reporting powers under the Climate Change Act to require the Financial Conduct Authority, Financial Reporting Council and the Pensions Regulator to produce Adaptation Reports.* (Paragraph 108)

Appendix: Support for TCFD

UK incorporated companies & financial entities supporting TCFD
Anglian Water
Arup
Aviva Investors
Aviva plc
Barclays
Bedfordshire Pension Fund
British Land
Brunel Pension Partnership
Burberry Group PLC
CCLA
Church Commissioners for England
Church of England Pensions Board
Diageo
Environment Agency Pension Fund
EY Global Limited
FTSE Russell
Generation Investment Management
Greater Manchester Pension Fund
Hermes Investment Management
HSBC Holdings plc
HSBC Pension Trust (UK) Ltd.
Impax Asset Management Group plc
International Airlines Group
International Cooperative and Mutual Insurance Federation (ICMIF)
Jupiter Fund Management plc
Landsec
Legal & General Investment Management
Legal & General MasterTrust and Legal & General Independent Governance Committee
LGPS Central
Lloyds Banking Group
Local Pensions Partnership
London Pensions Fund Authority
London Stock Exchange Group
London Stock Exchange plc
M&G Investments
M&S
Mayfair Capital Investment Management LTD
Merchant Navy Officers Pension Fund
National Grid
NEST
Pennon Group
PwC

UK incorporated companies & financial entities supporting TCFD
RBS
RPMI Railpen
Schroders
Scottish Episcopal Church
SSE
Standard Chartered
Standard Life Aberdeen plc
Telus
Tesco
The Co-operative Group
The Crown Estate
The Virgin Group
TPT Retirement Solutions
UBS Group
Unilever
Unilever UK Pension Fund
West Midlands Pension Fund
WHEB
Willis Towers Watson
WPP
Yorkshire Water

Annex: Table of pension fund responses

25 largest pension funds	Assets Under Management £bn	Climate risk discussed at Board level	At least one action listed	Discussed with actuarial advisor	TCFD reporting	More or less engaged *
Universities Superannuation Scheme	60.55	Yes	Yes	Yes	Committed to reporting	More engaged
BT Pension Scheme	49.34	Yes	Yes	Yes	Considering	More engaged
RBS Group Pension Fund	44.10	Yes	Yes	Yes	Considering	More engaged
Electricity Pensions Trustee Ltd.	31.90	As part of ESG discussion	Yes	No	No plans to report	Less engaged
Barclays Bank UK Retirement Fund	31.82	Yes	Yes	Yes	Committed to reporting	More engaged
HSBC Bank Pension Trust (UK) Limited	27.32	Yes	Yes	Yes	Committed to reporting	More engaged
Railways Pension Scheme	25.48	Yes	Yes	No	Committed to reporting	More engaged
BP Pension Fund	24.45	As part of ESG discussion	No	No	No plans to report	Less engaged
Greater Manchester Pension Fund	21.27	Yes	Yes	Yes	Committed to reporting	More engaged
Lloyds Bank Pension Scheme	19.83	Yes	Yes	Yes	No plans to report	Engaged
Strathclyde	19.69	Yes	Yes	Yes	Considering	More engaged
National Grid UK Pension Scheme	16.84	As part of ESG discussion	Yes	No	Considering	Engaged

25 largest pension funds	Assets Under Management £bn	Climate risk discussed at Board level	At least one action listed	Discussed with actuarial advisor	TCFD reporting	More or less engaged *
British Airways Pensions	16.06	As part of ESG discussion	Yes	No	Considering	Engaged
Shell Contributory Pension Fund	15.95	Yes	Yes	Yes	Considering	Engaged
BBC Pension Trust Ltd	15.84	Yes	Yes	Yes	Committed to reporting	More engaged
British Steel Pension Scheme	15.05	As part of ESG discussion	No	No	No plans to report	Engaged **
HBOS Final Salary Pension Scheme	14.76	Yes	Yes	Yes	No plans to report	Engaged
Aviva Staff Pension Scheme	14.40	As part of ESG discussion	Yes	No	No plans to report	Less engaged
West Midlands Pension Fund	14.29	Yes	Yes	Yes	Committed to reporting	More engaged
West Yorkshire Pension Fund	13.63	No	Yes	Risks being addressed	No plans to report	More engaged
Rolls-Royce Pension Scheme	13.35	As part of ESG discussion	Yes	Yes	No plans to report	Engaged
Tesco Pension Scheme	13.20	As part of ESG discussion	Yes	Yes	Considering	Engaged
BAE Systems Main Scheme	13.01	Yes	Yes	Risks being addressed	No plans to report	Engaged
Ford Pension Fund	11.96	No	No	No	No plans to report	Less engaged
Mineworkers' Pension Scheme	11.40	As part of ESG discussion	Yes	No	Considering	Engaged

Additional pension scheme responses	Assets Under Management £bn	Climate risk discussed at Board level	Lists at least one action taken	Discussed with actuarial advisor	TCFD reporting	More or less engaged
London Pension Fund Authority	5.60	Yes	Yes	Yes	No plans to report	More engaged
Parliamentary Contributory Pension Fund	0.73	Yes	Yes	Yes	No plans to report	Engaged

Notes:	
*	"The Committee made a qualitative assessment of what pension funds self-reported about their engagement with climate change and split the responses into three categories. The defining characteristics we have used to categorise these responses are described below. It is important to note that this is a qualitative assessment based on what has been reported to us in the letters. We have not attempted to verify the information reported to us."
**	"The British Steel Pension Fund is in the process of establishing a new fund and transfering assets to the new scheme. It has said in its letter that once the new scheme is operational it will carry out a more detailed assessment of financial risks associated with climate change as part of building its investment strategy. We have categorised it as 'engaged' accordingly."
More engaged	"The 'more engaged' group say they are taking steps to assess and minimise their exposure to the physical and transition risks posed by climate change. Pension funds in this group support TCFD and most have committed to—or are considering—reporting in line with recommendations on climate-related financial disclosures."
Engaged	"The 'engaged' group is making some progress. They acknowledged climate change as a risk, but often saw it as just one of the many environmental, social and governance (ESG) factors they had to contend with. This group have some responsible investment policies in place, but there was less demonstration of this being implemented in specific investment decisions. There was greater caution about committing to climate-related financial disclosures, although some are considering it."
Less engaged	"The 'less engaged' group has not formally considered climate change as a strategic risk. For this group, climate change was spoken of as one of a number of environmental, social and governance (ESG) issues that investment managers are left to manage. There was little reported evidence of strategic input or oversight from the pension scheme's governing body. This group do not plan to report on climate-related risks and opportunities in line with the TCFD."

Formal minutes

Wednesday 23 May

Members present.

Mary Creagh, in the Chair:

Geraint Davies	Caroline Lucas
Mr Philip Dunne	Anna McMorrin
Zac Goldsmith	Dr Matthew Offord
Mr Robert Goodwill	Alex Sobel

Draft Report (*Greening Finance: embedding sustainability in financial decision making*), proposed by the Chair, brought up and read.

Paragraphs 1 to 108 read and agreed to.

Annex and Summary agreed to.

Appendix agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[The Committee adjourned

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Tuesday 16 January 2018

Question numbers

Alex White, Senior Policy Officer, Aldersgate Group; **Diletta Giuliani**, Climate Bonds Initiative; **Dustin Benton**, Policy Director, Green Alliance; and **Sini Matikainen**, Research Fellow, Grantham Institute on Climate Change and the Environment. Q1–42

Angus McCrone, Chief Editor, Bloomberg New Energy Finance; **Steve Waygood**, Chief Responsible Investment Officer, Aviva; and **Rhian-Mari Thomas**, Chair Green Banking Council, Barclays. Q43–90

Tuesday 23 January 2018

Lord Teverson, Trustee, Green Purposes Company and **Peter Young**, Trustee, Green Purposes Company. Q91–125

Edward Northam, Head of the Green Investment Group. Q126–196

Tuesday 6 February 2018

Alice Garton, Company and Financial Project Leader, Client Earth; **Dr Ben Caldecott**, Oxford Sustainable Finance Programme; **Russell Picot**, Chair of the Trustee board of the HSBC Bank (UK) Pension Fund; and **Polly Billington**, Director, UK100. Q126–237

Emma Howard-Boyd, Chair of the Environment Agency; **Diandra Soobiah**, Head of Responsible Investment, NEST; and **Will Fox-Robinson**, Director, UK Institutional Business and Head of LGPS, Natixis Investment Managers. Q238–279

Tuesday 20 February 2018

Lord Turner of Ecchinswell, chair of the Institute for New Economic Thinking and of the Energy Transitions Commission. Q280–309

Sarah Breeden, Executive Director, Bank of England; **Stephen Haddrill**, Chief Executive, The Financial Reporting Council; **David Harris**, Group Head of Sustainable Business at London Stock Exchange Group; **David Geale**, Director of Policy, The Financial Conduct Authority; and **Anthony Raymond**, Acting Executive Director of Regulatory Policy, Analysis and Advice and General Counsel, The Pensions Regulator. Q310–384

Wednesday 21 February 2018

Rt Hon Claire Perry MP, Minister for Energy and Clean Growth, BEIS; **John Glen MP**, Economic Secretary to the Treasury; **Fiona Walker**, Deputy Director in Private Pensions and Head of Automatic Enrolment and Defined Contribution, Department for Work and Pensions; and **Catherine Bremner**, Transformation Director, BEIS. Q385–508

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

GFI numbers are generated by the evidence processing system and so may not be complete

1 Abundance Investment (GFI0014)

2 Aldersgate Group (GFI0003)

3 Aviva Plc (GFI0024)

4 Bank of England (GFI0038)

5 Barclays (GFI0028)

6 Carbon Tracker Initiative (GFI0005)

7 Christian Aid (GFI0015)

8 ClientEarth (GFI0012)

9 Climate Disclosure Standards Board (GFI0008)

10 Committee on Climate Change (GFI0004)

11 Confor (GFI0032)

12 Department for Work and Pensions (GFI0037)

13 Durham University Business School (GFI0036)

14 Grantham Research Institute (GFI0001)

15 Green Alliance (GFI0011)

16 Green Purposes Company (GFI0006)

17 HM Treasury (GFI0027)

18 IEEFA (GFI0026)

19 Iken Culmer Raphael (GFI0010)

20 London Stock Exchange Group (GFI0021)

21 Martin Blaiklock (GFI0009)

22 NextEnergy Capital (GFI0031)

23 Overseas Development Institute (GFI0018)

24 Oxford Sustainable Finance Programme (GFI0034)

25 Positive Money (GFI0023)

26 Principle for Responsible Investment (GFI0029)

27 Royal Society for the Protection of Birds (RSPB) (GFI0017)

28 ShareAction (GFI0013)

29 SRI Services (GFI0025)

30 Third Generation Environmentalism Ltd. (E3G) (GFI0016)

31 UCL Institute for Sustainable Resources (GFI0020)

32 UK100 (GFI0033)

33 UKSIF (GFI0002)

34 WWF-UK (GFI0022).

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Plastic bottles: Turning Back the Plastic Tide	HC 339
Second Report	Disposable Packaging: Coffee Cups	HC 657
Third Report	The Ministry of Justice: Environmental Sustainability	HC 545
Fourth Report	Improving air quality	HC 433
Fifth Report	UK Progress on Reducing F-gas Emissions	HC 469
Sixth Report	Green finance: mobilising investment in clean energy and sustainable development	HC 671
First Special Report	The Future of Chemicals Regulation after the EU Referendum: Government Response to the Committee's Eleventh Report of Session 2016–17	HC 313
Second Special Report	Marine Protected Areas Revisited: Government Response to the Committee's Tenth Report of Session 2016–17	HC 314
Third Special Report	Sustainable Development Goals in the UK: Government Response to the Committee's Ninth Report of Session 2016–17	HC 616
Fourth Special Report	Plastic bottles: Turning Back the Plastic Tide: Government Response to the Committee's First Report	HC 841
Fifth Special Report	Disposable Packaging: Coffee Cups: Government's Response to the Committee's Second Report	HC 867
Sixth Special Report	The Ministry of Justice: Environmental Sustainability: Government's Response to the Committee's Third Report	HC 982