BRUNEL
Pension Partnership

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Financial Conduct Authority
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31 January 2019

Dear Laura

We welcome the opportunity to provide input to the Financial Conduct Authority's *Climate Change and Green Finance* discussion paper.

As the Chief Executive Officer of Brunel Pension Partnership (Brunel), I present our views from the perspective of pension funds and their beneficiaries. Brunel brings together 10 like-minded Local Government Pensions Scheme funds, which provide for around 700,000 pension beneficiaries. Currently this equates to approximately £30 billion investments.

Addressing climate change is something we take very seriously at Brunel and as such is one of our top priorities. Our [Responsible Investment (RI) policy] sets out at a high level our approach to the integration of climate change risk assessments in investing, including monitoring and reporting on these risks.

The overall theme explored in your discussion paper is the practical considerations of financial markets in considering climate change and green finance within decision making. Whilst we accept there are "many factors that will influence how these markets will look in the future", we do not believe that the perception of the climate risk by participants in the financial markets is commensurate with magnitude of the risk as supported by the scientific evidence[1]. We therefore see the FCA role as pivotal in setting the right regulatory framework and tone in ensuring that climate change is taken seriously and addressed across the industry.

To provide context, Brunel has taken a number of steps in formulating a credible policy and plan to monitor exposures and actions to reduce concentrations of these risks. These include;

- Full integration of ESG risks and opportunities, including climate change, in 100% of all asset classes
- Active ownership of assets with climate change guidelines explicit in our Stewardship policy
- Provision of low carbon and sustainable equity portfolios
- Carbon footprinting and fossil fuel exposure of all listed portfolios (fixed income to follow)
- Publishing case studies (with impact metrics where available) of our investments in positive low carbon opportunities

[1] Intergovernmental Panel on Climate Change

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- Development of other carbon and climate change-related metrics for other asset classes

We are also an active member of a number of collaborative groups that support investors on managing the financial risks from climate change. These include the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+, Principles for Responsible Investment and our Chief Responsible Investment Officer, Faith Ward, co-chairs the Transition Pathway Initiative (TPI).

We recently submitted a response to the Prudential Regulation Authority's (PRA) consultation on *Enhancing banks' and insurers' approaches to managing the financial risk from Climate Change*. We strongly supported the requirements to explicitly embed the management of the financial risks from climate change into the roles and responsibilities of our Board, its subcommittees and individual Senior Management Functions.

We would be supportive of the FCA taking the recommendations and mirroring them on those who the FCA regulate, including ourselves. For example, we have already agreed Brunel will embed the management of the financial risks from climate change into the roles and responsibilities of our Board, its subcommittees and individual Senior Management Functions.

We strongly recommend firms to provide consistent and comparable disclosures in line with the Task Force Climate-related Financial Disclosures (TCFD). We strongly support the inclusion of references to the TCFD and welcome similar references in other regulators policy and regulatory guidelines. Brunel's first TCFD report was put on our website in January 2019.

The consultation proposes the creation of a Climate Financial Risk Forum. We strongly support the creation of the forum and offer the support of Brunel staff in providing technical expertise to the PRA and FCA in this regard.

We would be delighted to follow-up on any of the comments made in our response and provide further support to the review. Please contact our Chief Responsible Investment Officer, Faith Ward on faith.ward@brunelpp.org.uk.

Regards

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Signed by Dawn Turner
CEO, Brunel Pension Partnership Ltd

Attachments: Brunel Pension Partnership's response to the PRA

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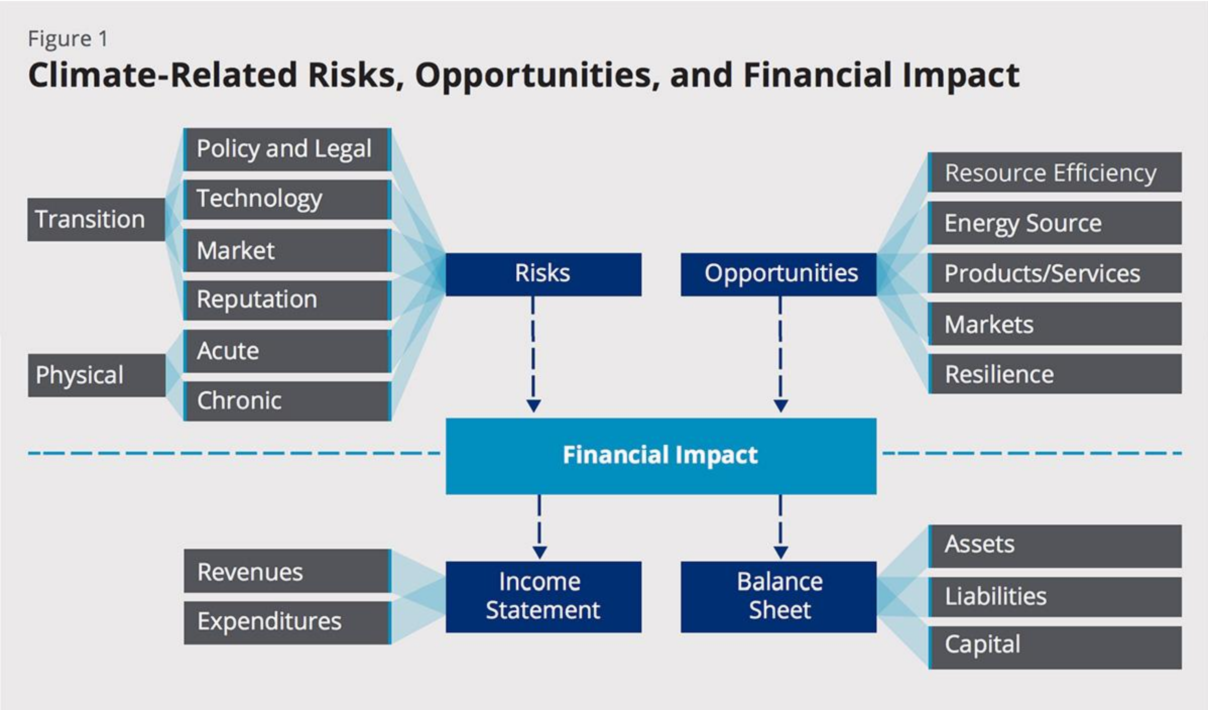
Q1: What, if any, difficulties do issuers face in determining materiality? We are also interested in exploring how investors consider materiality in this context

In response to the question, our reference point as to what we mean by materiality, as investors, is the guidance produced by the Financial Reporting Council to support matter to be covered in the strategic report. That states:

'Information is material if its omission or misrepresentation could reasonably be expected to influence the economic decisions shareholders take on the basis of the annual report as a whole. Only information that is material in the context of the strategic report should be included within it.' (Paragraph 5.1).

As clearly set out by the Task Force on Climate-related Financial Disclosures (see below) climate risk and opportunities are many and varied. The first challenge is that the guidance and or process used to determine materiality needs to ensure it can accommodate this wide range of issues.



Source: TCFD, 2017

Secondly, the guidance or process for determining materiality also needs to manage the ubiquitous nature of the risk across a wide range of industry sectors. Climate change impacts businesses directly and indirectly e.g. their supply chain. A deep knowledge of not only the firm, its own products and services, geographical distribution and dependencies but also those of key suppliers is essential if a robust assessment can be undertaken.

The scale of the challenge for investors is captured by the research published by the Sustainability Accounting Standards Board (SASB). Its technical bulletin on Climate Risk which concluded that "climate change affects 72 out of 79 industries (93 percent of the capital markets, or $27.5 trillion) but manifests differently from one industry to the next. Due to the ubiquity of climate risk, investors can't simply diversify away from it; instead they must focus on managing it—and on encouraging portfolio companies to manage it—in all its forms." We do not believe that 93% of businesses are dealing with climate change as a

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material issue and that the number of investors, particularly pension fund trustee boards and advisers, is even lower.[2]

Finally, a process for determining materiality needs to have high quality data and those assessing it need to have a depth of knowledge to understand the issues in hand. The difficulties for issuers in determining materiality in relation to climate change is that data quality, when looked at totality, and skills and knowledge are poor or at best variable.

Q2. We are interested in understanding whether greater comparability of disclosures would help investors in their decision-making more generally. If so, what framework would be most useful?

Increased quality, comparability and consistency in disclosures would be of enormous help to investors. We strongly endorse the disclosure recommendations made by the TCFD, reinforced by an effective audit and assurance process.

As detailed in out letter above, Brunel has already published its first TCFD disclosure and is working on developing metrics and targets.

Brunel has supported the work of the Green Finance Initiative. The GFI's report on *"Establishing The World's Best Framework For Climate-Related And Sustainability-Related Financial Disclosures"* provides more detail on how the FCA and other UK policy setting and regulatory bodies can support the publication of meaningful and reliable information relating to climate change on which the financial markets could operate.

Q3. Would exploring a comply or explain approach, or other avenues to encourage more consistent disclosures, be an effective way of facilitating more effective markets?

We believe climate change to be a financially material investment risk. As such the existing laws and regulations require a great deal of this to be disclosed, but as outlined in our opening statements and in response to Q1, the perception and knowledge of the risks means that the disclosures are not happening. The GFI report outlined above provides detail of how and where within the existing framework this can be incorporated, supported by the guidance from regulators such as the FCA.

We appreciate that the UK 'comply or explain' approach can provide flexibility that can lead to better disclosures than a prescriptive approach. However, without a firm regulatory steer it can lead to weak disclosure, particularly on newer risks, that are material to long term investors. A comply or explain approach also aggravates the concerns raised by the FCA relating to consistent and comparable disclosures.

In summary therefore, we would only support a comply or explain approach as a first step for the wider market with a stronger approach for premium listed equity. This would be consistent the FCA concerns (para 5.4) in providing appropriate protection for those in default work place pension schemes.

[2] Climate change is overblown nonsense and not a material risk says industry (Professional Pensions, 2016)

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Public reporting requirements

Q1. Do you think that a requirement for firms to report on climate risks would be a valuable measure?

Yes, we believe climate change to be financially material investment risk. As such the existing laws and regulations require a great deal of this to be disclosed, but as outlined in our opening statements and in response to Q1, the perception and knowledge of the risks means that the disclosures are not happening. The GFI report outlined above provides detail of how and where within the existing framework this can be incorporated, supported by the guidance from regulators such as the FCA.

However, while we recognise this question focuses on financial services firms reporting, we would suggest that the FCA's remit with regards to disclosure obligations extends well beyond this sector. Accordingly, it is our view that the FCA's consideration of climate risk reporting should extend to all issuers of listed securities, rather than regulated firms alone.

We support the Task Force on Climate-related Financial Disclosures (TCFD) assertion that: "*better access to data will enhance how climate-related risks are assessed, priced, and managed. Companies can more effectively measure and evaluate their own risks and those of their suppliers and competitors. Investors will make better informed decisions on where and how they want to allocate their capital. Lenders, insurers and underwriters will be better able to evaluate their risks and exposures over the short, medium, and long-term*". [3]

Q2. Do you have any suggestions for what information could be included in a climate risks report?

We would support the TCFD recommendations including the sector guidelines. We would support other industry bodies to take a lead on developing sectoral guidance.

Furthermore, we support the TCFD ask that climate risks are included in the mainstream financial filings.

We would support such filing being supplemented by more detailed information for wider stakeholders, this could be via a separate climate risk report. However, we must stress that a separate report should not replace statutory disclosures.

Q3. Do you have any views on which regulated firms should be required to compile a climate risks report?

As detailed throughout our response we believe climate change to be financial material risk to more or less all businesses. The extent will vary, with some sectors more exposed than others, but without a whole market approach the systemic economic risk identified by the Bank of England[4] will materialise.

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[3] Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)

[4] https://www.bankofengland.co.uk/climate-change

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Additional questions

Q1. How can authorities, including the FCA, most effectively work with industry to meet investor demand for green investment opportunities and encourage those raising capital and investing in it to pursue sustainable outcomes?

Authorities, such as the FCA, can support investor demands for green and social investment by dispelling the myth that there is a trade off with financial return and therefore inconsistent with fiduciary duty.

Furthermore, the FCA also needs to provide a strong regulatory and disclosure framework to ensure that green and social investment are authentic to avoid greenwashing.

Q2. Do you agree with the extent of the FCA's proposed interventions on climate change related financial disclosures? Is there a specific need for us to intervene further in the interests of market integrity or consumer interests?

We have clearly identified that the existing FCA capabilities (alongside other regulators such as the reformed FRC) can be used to reinforce market integrity. Specifically,

- Enforcement of the existing Companies Act legislation with regards material risk disclosure and climate risk integration into financial filings; and
- Ensuring effective oversight of the audit profession with regards the integration and application of climate risks in audit procedures.
- Create a strong regulatory and disclosure framework to ensure that green and social investment are authentic to avoid greenwashing

Q3. In light of the EU work on taxonomy, what are your views on the form common standards and metrics for measuring and reporting against green financial services products should take?

We support the development of a green taxonomy as there is confusion caused by the various classification regimes and definitions.

Q4. How could regulators and industry best work together as part of the Climate Financial Risk Forum?

The consultation proposes the creation of a Climate Financial Risk Forum. We strongly support the creation of the forum and offer the support of Brunel staff in providing technical expertise to the PRA and FCA in this regard.

Q5. What are your biggest concerns and commercial priorities regarding climate change?

We do not believe that the perception of the climate risk by participants in the financial markets is commensurate with magnitude of the risk as supported by the scientific evidence[5]. As such the response by firms and investors is inadequate to manage the risk and meet the objectives set out in the 2015 Paris Climate Agreement

Q6. What are the biggest barriers to the growth of green financial services in the UK?

We actively support the Green Finance Initiative and would reference the Green Finance Taskforce report, "Accelerating Green Finance" and the supplementary report "*Establishing The World's Best Framework For Climate-Related And Sustainability-Related Financial Disclosures*" *in* detailing the barriers and propose solutions the growth of green financial services in the UK.

[5] Intergovernmental Panel on Climate Change

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