Climate Change and Green Finance
Submission by Sarasin & Partners LLP and Local Authority Pension Fund Forum

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Summary

Climate risk disclosure and encouraging green finance form important functions in aligning financial flows with achieving Paris climate goals and the public interest. They are also vital to help avoid a disorderly transition and systemic risks linked to climate change, as pointed out by the Bank of England[1].

As long-term investors we support the FCA's focus on climate risk reporting. We also strongly support the FCA's effort to clarify how existing disclosure obligations would capture the reporting implications of climate change, as outlined in para 5.15 of DP 18/8. Too often the starting point for discussions on climate-related disclosures is that they are voluntary. In our view material climate risks should be treated like any other risk, and thus should be captured in statutory company reporting to shareholders in both narrative and accounting disclosures.

We would welcome the FCA, alongside the reconstituted Financial Reporting Council (FRC)[2], confirming the existing requirements for transparent reporting of climate-related risks and providing supportive guidance for how companies should meet their obligations to ensure full disclosure and to support comparability.

We make the following key points in our submission:

1. **Material climate risks must be integrated into statutory filings under existing rules:** Stand-alone climate risk reports would provide a useful addendum, but must not supplant integration into financial filings. Current rules require i) firms disclosure of principal risks and opportunities, and ii) company accounts meet the statutory 'true and fair' view requirement[3]. The UK's capital maintenance regime requires that accounts are prudent, and foreseeable losses or liabilities are accounted for. Shareholders need to know sooner rather than later where climate headwinds (both physical and linked to decarbonisation/transition) might translate into financial losses/liabilities. These disclosure requirements underpin trust in financial markets.
2. **Material climate risks may exist in all sectors:** All regulated firms should be required to integrate material climate risks into their respective financial filings. This is because climate change presents a potentially systemic risk, both in terms of its physical impacts and the associated transition risks linked to a regulatory response. These impacts are not limited to just one or a few sectors.

[1] See Mr. Carney's speech at http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx Transition in thinking: The impact of climate change on the UK banking sector at https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/report/transition-in-thinking-the-impact-of-climate-change-on-the-uk-banking-sector.pdf

[2] Sir John Kingman recently published recommendations to revamp the FRC to ensure a clearer statutory basis; tighter controls on conflicts of interest; and a stronger focus on ensuring corporate reporting that meets investors and the public's needs. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf

[3] We have not included disclosure requirements under Prospectus Rules or Disclosure and Transparency Rules, which we are less familiar with.

3. **Accounting standard setters should provide guidance:** In December, the Australian Accounting Standard Board and the Audit and Assurance Standards Board published a paper outlining how climate risks could be taken into account under existing accounting assumptions. This is very welcome, and provides a valuable model for the International Accounting Standards Board.
4. **Auditors should ensure full and prudent disclosures:** In essence, auditors act as investors' 'watchdogs'. They are required under the Companies Act 2006 to provide assurance that company accounts meet the true and fair view requirement, as well as requirements under the capital maintenance regime. Auditors should therefore ensure that financial statements are incorporating material climate risks. We have little demonstrable evidence auditors are making these checks at present, and would welcome regulatory scrutiny of this matter. This assurance should not be treated by audit firms as a new business opportunity within the consulting business, given it is already part of the auditors' core audit responsibility.
5. **TCFD provides a helpful framework for disclosure, but should not supplant legal disclosures:** By capturing climate risks in existing legal filings, the company will have to consider the expected material impacts. We believe the TCFD recommendations offer a helpful supporting framework to ensure directors think through the full range of direct and indirect impacts. We believe it will be important, however, to ensure that standardisation does not lead to boiler-plate disclosures that fail to indicate levels of materiality, which ends up reducing visibility.

About Sarasin & Partners LLP

Sarasin and Partners LLP is a London-based investment manager serving charities, private clients and other institutions. Our goal is to deliver sustained investment returns through an active long-term investment approach, which emphasises stewardship. We have been an advocate for the integration of climate risks into investment analysis as we believe this part of a prudent and successful investment strategy. We also have an investment product (Climate Active) that focuses on investing in companies aligning themselves with achieving Paris climate goals. We therefore welcome the FCA Discussion Paper and the invitation to submit comments on it.

About Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum was set up in 1991 and is a voluntary association of 79 local authority pension funds and five LGPS pools based in the UK with combined assets of approximately £230 billion. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote high standards of corporate governance and corporate responsibility amongst the companies in which they invest.

Disclosure in capital markets

1. How do investors consider materiality?

If it is pertinent to the investment decision (and thus could alter that investment decision), then investors consider it material. As long as climate-related risks and opportunities are likely to have an economic impact on the business, e.g. in terms of costs or revenues, then they are likely relevant to that investment decision, and thus material. This applies not just to direct cost / revenue impacts, such as a carbon tax, but also indirect impacts, such as reputational damage that could lead to regulatory scrutiny and fines, litigation or a fall in sales.

In our view, climate-related impacts could be highly material for a number of companies. These impacts might manifest themselves through the direct physical impacts on company plants, property or equipment, staff, suppliers, or customers, or through the policy response that alters the market dynamics in which the company operates, e.g. through taxes; emission controls; new permitting systems. As such, we consider climate change to be as much an economic concern as an environmental concern.

2. 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?

The ability to compare company disclosures is an important part of an investment process. However, comparability should not be sought at the expense of data quality. In the end, as investors we are most interested in high quality (reliable and meaningful) information that give us real insight into climate-related risks and opportunities. We are then keen to be able to compare this information for different companies.

With the proviso that data quality is maintained, we are supportive of the FCA providing guidance on a framework for disclosure. We believe the TCFD framework offers a valuable starting place for such a disclosure framework. This could be directly used to flesh out, for instance, climate risks under the principal risks and uncertainties discussion in the company's Annual Strategic Report.

The materiality of climate risks / opportunities need also to be appropriately reflected in statutory reporting frameworks, including the financial statements. This will in many cases require translating information from the TCFD report into, for instance, liabilities, impairment tests, asset retirement obligations, and/or changes in asset lives and depreciation.

The Australian Accounting Standards Board recently published a helpful paper setting out the various ways in which climate risks could impact financial reporting[4].

In 2018, the Institutional Investor Group on Climate Change published a paper setting out the key role of Audit Committees and auditors in ensuring climate risks are properly reported to investors in Annual Report and Accounts according to existing legal frameworks[5]. The Annual Report and Accounts provides a basis for comparing company performance and capital strength. Climate risks should be clearly part of this.

In a paper published last August, Sarasin & Partners highlighted to relevance of climate risks (and specifically decarbonisation) to accounting assumptions in the fossil fuel sector. Specifically, the paper pointed to the relevance of decarbonisation to long-term oil and gas price assumptions used by fossil fuel companies in impairment testing on the balance sheet and we highlighted possible impacts for property, plants and equipment (PPE), goodwill, deferred tax assets and asset retirement obligations. The paper asked whether oil and gas companies could be overstating capital and performance as a result of overly optimistic long-term price assumptions[6].

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

As we outline in more detail below under 'Public reporting requirements', it is our view that material climate risks, and associated foreseeable losses/liabilities, should be disclosed under existing laws and regulations, and are thus not voluntary. As such, in most instances, we do not think it is appropriate to approach these disclosures in terms of comply or explain.

Having said that, guidance to encourage the use of a particular framework may well need to be voluntary, and in this case it would be appropriate to ask companies to use the framework, or explain why it has not been used and another form of disclosure adopted, and what they are doing to work towards best practice.

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[4] "Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2", AASB, Dec 2018 https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_13122018_final.pdf

[5] http://www.iigcc.org/files/publication-files/IIGCC_2018_Voting_and_Climate_Risk_v11.pdf

[6] http://www.sarasinandpartners.com/docs/default-source/esg/are-oil-and-gas-companies-overstating-their-position.pdf?sfvrsn=2 and our shorter Financial Times Opinion piece on this topic: https://www.ft.com/content/c61fc400-964d-11e8-95f8-8640db9060a7

Public reporting requirements

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

Yes, it should be (and already is – see below) a requirement for all firms to report on material climate risks.

While we recognise this question focuses on financial services firms reporting, we would suggest that the FCA's remit with regards 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 take this perspective in our response below.

The impact of climate change on firms is varied, including both physical impacts and those that come from policy and technological efforts to decarbonise the world. Taken together, these climate related shifts are likely to be material for a wide range of businesses in many sectors. Consequently, investors and other stakeholders need to have information on their potential impacts.

We echo the Task Force on Climate-related Financial Disclosures (TCFD) perspective which notes 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*". [7]

As indicated above, it is our view that the disclosure of material climate risks is already required for UK listed companies as follows:

1. Companies are obliged to provide a description of the principal risks and uncertainties facing the company in the strategic review section (Companies Act s414);
2. Company audited financial statements must provide a 'true and fair' view of performance and capital position (Part 15 CA06); and support the capital maintenance regime (e.g. Part 23, CA06); and
3. Companies must articulate a long-term viability statement setting out how they have considered long-term risks to the business (UK Corporate Governance Code c.2.2).

Principal risks and uncertainties must be legally disclosed

With regard to the first point, companies must disclose to shareholders key judgments, assumptions, sensitivities and uncertainties used in companies' financial statements.

In 2015, Client Earth, a public-interest law firm, made a formal complaint to the FRC over the failure of Soco International and Cairn Energy, two UK listed fossil fuel extractive companies, to provide the appropriate disclosures of climate risks under their principal risks and uncertainties. Their letter outlines in detail what the legal requirements are and how the companies have failed to meet the standard. We understand an investigation was undertaken by the FRC, and the companies' annual reports appropriately improved the following year[8]. These cases provide good illustrations of the relevance of these legal requirements to climate-related risks.

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

[8] https://www.clientearth.org/clientearth-complaint-prompts-transformed-climate-reporting-oil-gas-firms/

Long-term viability may be threatened by climate-related events
Related to the second point, this requirement was introduced in October 2014[9]:

> *"Taking account of the company's current position and principal risks,* ***the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate****. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary."* (Emphasis added)

The Code does not specify the time period which the viability statement should cover, but the Financial Reporting Council (FRC) has made clear in its associated Guidance that:

> *"The length of the period should be determined, taking account of a number of factors, including without limitation: the board's stewardship responsibilities; previous statements they have made, especially in raising capital; the nature of the business and its stage of development,* ***and its investment and planning periods****."*[10] (Emphasis added)

Since this requirement has been introduced, most companies have chosen a three year time frame, with some looking out five years. We are not aware of any that go beyond this, even where the business planning horizon can be measured in decades. This inevitably leads to less focus on longer-term headwinds like climate risks, which could pose a viability threat. Investors concerned by the short-term focus of viability statements and lack of consideration of climate risks wrote to the FRC in January 2016 to ask for this to be looked into[11].

Company financial statements must take account of climate-related impacts to be prudent
With regard to the third point, companies are required to look beyond compliance with accounting standards to assess whether the numbers that appear in the profit and loss and balance sheet present a 'true and fair' view.

Further, the UK's capital maintenance regime requires that accounts are drawn up prudently to prevent illegal distributions (i.e. distributions out of paid-in capital)[12]. Foreseeable losses or liabilities need to be accounted for. These requirements underpin trust in financial markets as they reassure providers of both debt and equity capital that their capital is protected. They are also, of course, important to a wide range of stakeholders who are dependent on companies' future viability, from staff, to suppliers, to customers. Shareholders and other stakeholders need to know sooner rather than later where climate headwinds (both physical and linked to decarbonisation / transition) will translate into financial losses / liabilities.

[9] For quoted companies with a premium listing, Rule 9.8.6 of the Listing Rules requires a statement in the annual report indicating how the company applies the main principles of The UK Corporate Governance Code.

[10] FRC, 2014. *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting*. [Online] Available at: https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Risk-Management,-Internal-Control-and.pdf [Accessed 1 December 2015] p.19.

[11] http://www.sarasinandpartners.com/docs/default-source/esg/letter-to-frc-on-viability-statements---29-jan-2016.pdf?sfvrsn=2

[12] Part 23 2006 Companies Act s830 sets out that for distributions (e.g. dividends) to be legal, they can only be made out of "profits available for the purpose". This means accumulated realised profits not needed to cover foreseeable losses. In addition, companies must comply with the "net asset restriction" (s831), which prohibits distributions that result in net assets falling below the aggregate called up share capital and undistributable reserves. Similar legal requirements exist in the European Union.

We have concerns that, at present, accounting and audit practice assumes 'business as usual', and that climate considerations are being ignored. Such an approach risks of over-statement and thus potential over-distribution.

Is it right, for instance, that a newly built coal-fired power plant in Europe is depreciated over 25 (or even more) years, when the international climate agreement implies that coal must be phased out by 2030, and tightening rules around air pollution and falling renewable costs mean that a rising proportion are already loss making?[13] A shorter assumed life would normally increase the company's depreciation charge, and thereby reduce reported profits.

Or to take key accounting assumptions used by fossil fuel companies. Should oil and gas extractive companies assume that oil prices will continue to rise with inflation indefinitely from a base of $70-$80 per barrel from 2020/21 into the future when undertaking impairment tests, as most European majors currently do in their accounts?

This was the question posed by a paper Sarasin & Partners released in August 2018, which drew attention to the apparent lack of consideration of climate risks in the determination of key accounting assumptions[14]. The paper looked specifically at long-term oil and gas price assumptions for eight listed European oil and gas companies (RD Shell, BP, Total, Eni, Repsol, Equinor, Soco International and Cairn Energy).

None of the companies' Audit Committees or auditors (including Deloitte, EY, KPMG and PWC) indicated that they had considered the Paris Accord or decarbonisation in their assessment of the accounting judgments. None identifies decarbonisation as a key audit risk. Indeed, looking beyond the accounts, only RD Shell references the energy transition to a low carbon future in its Viability Statement.

This silence on decarbonisation appears inconsistent with disclosures in the same companies' Strategic Reports that acknowledge decarbonisation as a material threat, as well as third party assessments that long-term demand and prices for fossil fuels will fall as the Paris Accord is implemented.

As also noted above, more recently the Australian Accounting Standards Board released a paper setting out the areas where climate risks could be taken into account in the accounting process[15]. This paper provides a helpful reference document for companies as they consider the accounting implications of climate risks.

Risks should be reported even if we are not 100% certain of the value or date of impact

It is worth briefly touching on a common reason given for why climate risks are not being properly reported. This is that, while we may know there is a negative impact coming, there is a lack of certainty over the precise materiality and the date it will be experienced.

While we recognise that uncertainty makes directors' job harder, we do not believe this is a good reason to ignore (or not report) a potentially highly material headwind. It is better to be roughly

[13] See for instance Carbon Tracker, "Powering down coal: Navigating the economic and financial risks in the last years of coal power", November 2018.
[14] http://www.sarasinandpartners.com/docs/default-source/esg/are-oil-and-gas-companies-overstating-their-position.pdf?sfvrsn=2 and our shorter Financial Times Opinion piece on this topic: https://www.ft.com/content/c61fc400-964d-11e8-95f8-8640db9060a7
[15] https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_13122018_final.pdf

right than precisely wrong. As noted, taking account of likely losses/liabilities is a cornerstone of our capital maintenance regime, which emphasises prudence.

As long as the negative event is likely, even where it cannot be measured with certainty or a date for the loss precisely defined, then it needs to be reported[16].

Financial statements should be consistent with narrative disclosures

As touched on above, directors are expected to ensure (and auditors to check) that accounting numbers are consistent with the narrative disclosures in the Annual Report (such as the Strategic Report, including the Viability Statement). This is part of meeting requirements for companies' Report and Accounts to be 'fair, balanced and understandable'.

Auditors should ensure compliance with these reporting rules

For investors to have sufficient comfort that financial filings incorporate material climate risks there must be confidence that external audit has considered these risks. Accordingly, we expect auditors to check (and disclose) whether the critical accounting judgements, assumptions, sensitivities and uncertainties are prudent, taking climate-related risks into account. If they are not, then there is every likelihood that performance and capital will be overstated.

Further, auditors must check that the narrative disclosures in the Annual report and Accounts are consistent with the numbers presented in the accounts. As noted above, these disclosures are part of meeting requirements for company Report and Accounts to be 'fair, balanced and understandable'.

Recent action by investors

In 2018, the Institutional Investor Group on Climate Change published a discussion paper setting out the key role of Audit Committees and auditors in ensuring climate risks are properly reported to investors in Annual Report and Accounts[17].

Following this publication, in January 2019 just under 30 investors wrote to the Managing Partners of the seven largest audit firms in the UK (PwC, E&Y, KPMG, Deloitte, BDO, Grant Thornton & Mazars) to set out their expectations that auditors ensure climate risks are properly considered in the audit process. The investors are seeking follow up conversations with audit firms on this matter. This letter has also been shared with the FRC, with a request that it look into audit quality related to climate risks[18].

Conclusion

Bringing the above points together, we would strongly support the FCA (working together with other public bodies like the successor to the FRC) making clear that climate risks should be treated the same as other foreseeable risks, and that related losses or liabilities need to be reported in a prudent manner.

With clarity on these requirements, we would support the FCA in developing supplementary guidance for a stand-alone climate risk report, taking the TCFD recommendations into account.

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[16] See, for instance, CA06 s682(4): *"liabilities" includes any amount retained as reasonably necessary for the purpose of providing for a liability the nature of which is clearly defined and that is either likely to be incurred or certain to be incurred but uncertain as to amount or as to the date on which it will arise.*

[17] http://www.iigcc.org/files/publication-files/IIGCC_2018_Voting_and_Climate_Risk_v11.pdf

[18] Sarasin & Partners letter to Audit Firms and the FRC is available on request.

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

As noted previously, material climate risks ought to be disclosed in the same form as other foreseeable risks in the Strategic Report (including Long-term Viability Statements) and should be incorporated into company financial statements.

The TCFD also highlights the need for climate risks to be integrated into financial filings as one of its four key recommendations:

- "*disclosure in mainstream financial filings should foster shareholder engagement and broader use of climate-related financial disclosures, thus promoting a more informed understanding of climate-related risks and opportunities by investors and others*"; and
- "*The Task Force also believes that publication of climate-related financial information in mainstream annual financial filings will help ensure that appropriate controls govern the production and disclosure of the required information*"[19].

In terms of a stand-alone 'Climate Risk Report', we believe the TCFD recommendations (including the four key pillars of: governance; strategy; risk management; and metrics and targets) offer a strong starting point. This framework would provide a helpful way to gather the relevant information, which could then be translated into the relevant statutory disclosures noted above. The key point is that a climate risk report does not replace the statutory disclosures.

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

All regulated firms should be required to integrate material climate risks into their financial filings.

Too much focus has been ascribed to identifying risks within specific sectors. Climate change presents a potentially systemic risk, thereby extending its exposure to all sectors and thus firms.

Accordingly, specifically omitting some firms, or sectors, from this reporting requirement could send a signal to investors that this firm/sector is without material climate risk. Such a signal would be without foundation and could heighten the possibility of market failure.

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

Additional questions

1. 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?

While we support the development of green finance as a central pillar of sustainable development and seek to align financial flows in achievement of Paris goals, we retain questions as to whether ‘green investment opportunities’ should be considered in isolation from ‘non-green investment opportunities’.

Climate change presents multifaceted challenges to virtually all sectors and firms. As such, to categorise investment opportunities into binary ‘green’ or ‘non-green’ investments presents risks.

How should an investor consider an investment in a renewable energy project whose location is at risk from the physical impacts of climate change? Is this a green investment opportunity?

Conversely, consider a bond issued by an airport that is considered ‘green’ because of its low Scope 1 & 2 emissions relative to its peers, despite that airports enormous enabling contribution to Scope 3 emissions? Should this bond be considered a ‘green investment opportunity’?

Accordingly, labelling one (or both) of these investments as green might provide investors a dangerous and inflated sense of confidence that climate risks were low.

In addition, these simplistic labels can miss critical efforts taken within fossil fuel dependent companies to move towards greener business models (e.g. an oil and gas company committing to transition to a clean energy company and net zero emissions by 2050) is often treated as ‘non-green’ even though these actions by the company might contribute more towards attaining the Paris goals than further investment in stand-alone renewable power companies, for instance.

There are also potentially harmful social consequences that need to be considered as the world transitions to a zero carbon pathway, even where overall society gains[20].

This brings us back to the evaluation of climate risks by firms and financial actors. Sufficiently nuanced (and non-generic) risk assessments are required to provide financial actors with the information to ascertain the extent of climate risks.

However, if an enhanced taxonomy were developed that provided suitable clarity as to the use of the proceeds of ‘green investment’ opportunities and was matched by appropriate disclosure of that investment’s climate risks and broader social impacts, this would allay some of our concerns.

2. 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?

Market integrity can be reinforced under existing FCA capabilities. As such, the FCA could intervene (alongside other public bodies like the reconstituted FRC) further on:

- Appropriate application of the existing Companies Act legislation with regards material risk disclosure and climate risk integration into financial filings; and

[20] See work on the Just Transition spearheaded by UNPRI: https://www.unpri.org/academic-research/climate-change-and-the-just-transition-a-guide-for-investor-action/3202.article

- Appropriate oversight of the Audit profession with regards to the integration and application of climate risks in audit procedures.

We would also concur that consumers, including those seeking green finance products, ought to be appropriately protected from 'greenwashing'.

However, we reiterate that addressing climate change is multifaceted and that achieving Paris decarbonisation goals are part of a transition. Accordingly, the application of 'simplistic' tools, such as carbon foot printing financial products (which leave out scope 3 emissions, and ignore the direction of travel of an entity that may have a large footprint today) provides an incomplete picture of the true nature of climate risks.

3. 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 given the existing confusion that exists between the various classification regimes and the lack of clarity in green definitions (see points above).

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

We support the establishment of the Climate Financial Risk Forum. However, to reflect a variety of stakeholders appropriately, the Forum must not be comprised of only regulators and industry participants. Investors, and especially asset owners such as pension schemes, should also be included.

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

Our biggest concerns are that firms (and many investors) are insufficiently focused on achieving the goals laid out in the Paris 2015 climate agreement. Climate change continues to be viewed as uncertain and distant, and thus not relevant to business or investment decision-making.

We further have concerns that behind-the-scenes lobbying by companies facing headwinds from decarbonisation is impeding necessary regulatory action, and often this is not disclosed to shareholders. This lobbying contributes to sending out mixed messages about climate change, and the false choice often present in the public mind between prosperity today and acting to combat climate change.

This message needs to be robustly countered, and the Government should take a lead in ensuring accurate information in the market. We would specifically welcome more regulatory action to ensure company lobbying positions are fully and fairly presented to investors.

Another area of concern is the lack of action by asset owners and asset managers. Where investors devote resources to engaging directors and use their vote more proactively to choose leadership that is committed to acting on climate change, we would see more determined action. More scrutiny of how investors are acting – not just promising to act – such as through engagement and voting is needed.

In the end, our core interest is to protect and enhance our clients' / beneficiaries' capital. Climate change presents a threat to this, and we are determined to ensure early and considered action. A key aspect of climate risk is the time-lags involved. While we are already beginning to see the impacts, these are expected to escalate in the future (even with concerted action), so the full force of climate change will not be felt for many years. According to the IPCC's latest report 1.5C, the window of opportunity for action to avoid some of the worst outcomes is rapidly closing. Full and accurate disclosure of climate risk is critical if we are to ensure capital is appropriately redeployed today. A disorderly transition is in no-one's interests.