Environmental Audit Committee - Green Finance inquiry

22 December 2017

Response from Climate Disclosures Standards Board (CDSB) & CDP

- **How can the structure of incentives across the investment chain be changed to promote long-term sustainable development?**

No comment

- **Is the Government's level of ambition on green finance - and the mechanisms it sets out in the Clean Growth Strategy – sufficient to generate the investment needed for the UK to meet its environmental commitments?**

No comment

- **How will the Clean Growth Strategy feed into the work underway by the World Benchmarking Alliance on how an SDG index could be established?**

No comment

- **Is the Green Investment Group (GIG) fulfilling commitments made by Macquarie to ensure the Bank 'remain[s] one of the leading investors in green infrastructure in the UK and Europe'?**

No comment

- **How will leaving the EU affect the UK's ability to leverage investment into low-carbon and environmentally friendly projects in the UK?**

No comment

- **What options are there for the UK's future relationship with the European Investment Bank? What would be the implications for green investment in the UK?**

No comment

- **Given the work being carried out by the EU's High Level Expert Group on Sustainable Finance, where should the UK's newly created Green Finance Taskforce concentrate its efforts?**

The UK should work quickly to adopt the TCFD's recommendations, or risk seeing UK businesses unable to fully articulate the impact of climate change on their businesses. This would leave them at a competitive disadvantage to global peers and less resilient in the global transition to a low carbon economy. France and Sweden have already committed to the TCFD's recommendations in a joint statement made ahead of the One Planet Summit on 12th December 2017.

The Green Finance Taskforce (GFT) can play an important role in bringing together UK government officials, regulators, investors, companies, topic experts and NGOs to discuss routes for adopting the TCFD's recommendations.

The GFT is approaching its efforts with the intention of publishing a set of recommendations in a manner that will not require the development and implementation of new legislation, instead using the existing regulatory framework (through integrating into relevant UK rules and codes). CDSB and CDP support this approach.

The GFT should integrate the TCFD's recommendations in full, and if possible, develop additional elements that the TCFD has not addressed, including; fiduciary duty, accounting frameworks, the role of auditors, and the role of stock exchanges.

The GFT should also look to encourage and develop the quality of disclosures through; public disclosure rankings, supporting the creation of tools, and encouraging organisations to implement scenario analysis through the disclosure of scenario parameters, assumptions, considerations and analytical choices. In turn, this will aid external stakeholders to make informed decisions relating to the businesses strategies.

- **How effective are the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations likely to be at moving investment into 'clean' sectors?**

As an industry-led initiative with significant private backing, the TCFD has brought existing standards, frameworks and concepts together presenting a clear set of recommendations for organisations to implement. These are aimed at all financial actors, from companies and investors to asset owners and managers, as the goal is to provide consistent and transparent information to global markets. Financial regulators will also be in a more informed position to understand the potential exposure within the economy from future climate-related risks, such as stranded carbon assets, and work with policymakers to ensure the risks are managed and mitigated appropriately. The UK Government should support the financial sector quickly understanding how to evaluate their exposure to climate-related risks and maximise the opportunities related to the transition to a low-carbon economy. This will also need to be coupled with financial regulators incorporating climate scenario analysis within their stress-testing exercises to highlight where improvements are required and demonstrate financial stability.

The TCFD recommendations, when implemented economy-wide, will help to ensure there is a smooth transition to a low-carbon economy. It does this by stating that the effects of climate change upon organisations should be evaluated and disclosed within mainstream reports, as with any other material business risk. Its effectiveness should be evidenced through reducing potential financial instability preventing a 'carbon bubble' within the markets, transforming business models and strategies that currently have large exposures in carbon intensive sectors and increasing the efficiency of capital allocation to organisations with long-term sustainable returns on investment.

However, as the TCFD recommendations are voluntary, rapid and efficient allocation of capital to organisations that are adapting their business models and strategies to generate social, environmental and economic value is not guaranteed.

- **The Government has said it will 'encourage' publicly-listed companies to adopt the TFCD's recommendations on climate risk disclosure. How could it do this? Is a voluntary approach sufficient?**

For the most significant effects of financial instability caused by climate change to be mitigated, the TCFD recommendations will need to be adopted throughout the economy by both publicly-listed and unlisted companies in sectors that are especially vulnerable as highlighted by the TCFD in its final report.

We support the UK Government in its 'encouragement' of publicly-listed companies to adopt TCFD's recommendations and commend its official endorsement[1]. We bring to the

[1] https://www.gov.uk/guidance/green-finance#green-finance-taskforce

Committee's attention that, amongst all the TCFD initiatives, CDSB has the only public commitment[2] with a clear timeframe asking companies to implement the TCFD recommendations as much as practically reasonable within the next 3 years. However, as of December 2017, only 4 UK-listed companies have signed up to this commitment out of an approximate total 2031 companies[3] on the London Stock Exchange. We ask that the UK Government further 'encourage' companies to implement the TCFD recommendations through CDSB's commitment, as well as the Green Finance Taskforce's recommendations when published.

We do not believe that a voluntary approach is sufficient in order for the necessary rapid and smooth transition to a low carbon economy required to prevent catastrophic climate change occurring. We support the Grantham Institute's[4] view that "disclosure needs to be consistent, relevant, and widespread across companies, which will likely require making these disclosures a mandatory part of existing financial disclosure rules". A crucial role of government is to rectify market failures where found through regulation, and we believe that mandatory disclosures of material environmental information, including climate-related risks, within mainstream reports is one such example. Effective enforcement of existing financial disclosure rules is also required, and we have previously stated our concerns about the Financial Reporting Council[5] not taking a proactive role in carrying out its duties. Reform and capacity building at the FRC is required so that existing financial disclosure rules are enforced where material climate-related risks should already be disclosed.

[2] https://www.cdsb.net/commit-implement-recommendations-task-force-climate-related-financial-disclosures
[3] http://www.londonstockexchange.com/statistics/companies-and-issuers/companies-defined-by-mifir-identifiers-list-on-lse.xlsx
[4] http://www.lse.ac.uk/GranthamInstitute/news/the-uk-has-endorsed-recommendations-for-financial-reporting-of-climate-risks-but-are-voluntary-guidelines-enough/
[5] https://www.cdsb.net/news/policy/734/cdsb-statement-frc-advice