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Rt Hon Philip Dunne MP
Chair, Environmental Audit Committee
House of Commons
London
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15th April 2020

Sent by email

Dear Mr Dunne,

Congratulations on your appointment as Chair of the Environmental Audit Committee. I'm writing on behalf of ShareAction in response to the Committee's call for submissions on Possible Future Inquiries, specifically on follow-up on progress since the 2018 Green Finance inquiry. As you may recall, ShareAction is a registered charity established to promote transparency and responsible investment practices. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters.

ShareAction's written submission to the Green Finance inquiry in January 2018 made a number of policy recommendations, and we are grateful that the Committee undertook a number of those in its final report to the Government. We were pleased that the Committee advocated the following measures in particular:

- For the Government to clarify in law the status of environmental, social and governance (ESG) factors in relation to the fiduciary duties of investment intermediaries, in line with the recommendations of the Law Commission
- For the Government to set a deadline of 2022 for all companies and financial institutions to report in line with the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, on a comply-or-explain basis
- For the UK Corporate Governance Code, the UK Stewardship Code, and FCA listing rules to be amended to require TCFD reporting, on a comply-or-explain basis

Since the Government published its formal response to the Committee in October 2018, which accepted only some of the proposals, a number of significant reforms have been made. Most notably, the DWP clarified the position of trust-based pension schemes in relation to ESG factors, with new regulations to state that trustees may consider financially material ESG factors in investment decisions. They must now state in their Statement of Investment Principles their policy in relation to ESG. Following the Kingman Review, the FRC published the updated 2020 UK Stewardship Code, which set more rigorous standards for institutional investors and investment service providers with regard to ESG, and has also placed more emphasis in carrying out its wider stewardship responsibilities.

There are further reforms underway at time of writing that we welcome. We would highlight in particular the Pension Schemes Bill, currently being debated in Parliament, which has provisions to allow the DWP to issue new regulations requiring pension schemes to report against the TCFD framework. The FCA is consulting on requiring UK premium listed companies to report on the same basis.

While the regulatory landscape has clearly moved in the last few years, it has yet to put into place sufficient incentives for the UK investment system to adequately promote green finance and to mitigate ESG risks to our capital markets. In pursuing a follow-up Green Finance inquiry, we would recommend the Committee to explore the following:

- **Mandatory TCFD reporting.** The Government rejected the Committee's proposal for requiring TCFD reporting by 2022, to the detriment of financial institutions. ShareAction's most recent research surveyed the asset management industry has found that mitigation of climate-related risk is still lacking. Our report *Point of No Returns*[1] found there is great variance on stated policies on ESG issues, publication of voting rationales and engagement activities, and consideration of ESG in the internal governance of asset management firms. We remain convinced it is doubtful that without mandatory TCFD reporting, this state of affairs will not change by 2022. *The Committee should press the Government on whether it will reconsider its policy on this, given the lack of progress, and seek commitments that TCFD will applied to all relevant actors in the investment chain.*

- **Enforcement and enhancement the new ESG regulations.** ShareAction's report *Is Regulation Enough?*[2] 2 analysed how the practices of master trust pension schemes have changed following the new DWP regulations. Our findings suggest that while pension schemes are acknowledging that their investments have a broader impact on their beneficiaries' lives, including in respect to climate change, there is also a lack of oversight and attention to stewardship regarding ESG. In addition, the 2020 UK Stewardship Code, while having higher ESG standards, lacks an enforcement mechanism, with seemingly little to sanction signatories to the Code if they fail to comply with its provisions. *The Committee should explore how these regulations can be better enforced and enhanced, in order to effect real change by asset managers and asset owners.*

- **Stimulating green finance demand through engagement.** Boosting the green finance market is an opportunity that goes hand-in-hand with boosting pension saving, particularly young savers who are entering the pensions market for the first time through automatic enrolment. Young savers are a growing market to promote green finance to via their pension schemes – 68% of 25-34 year olds say it is important that people use their money for the good of society and the wider world.[3] The 'pensions dashboard', a new online tool that will be created by the Pension Schemes Bill, would be an ideal platform to savers to access information about their pension options regarding green financial products. *The Committee should consider how this and other mechanisms could be used to boost saver engagement and the provision of green finance.*

- **Guidance for fixed-income investors on climate change.** On average the second largest portion of a fund's investment will be in bond holdings. Bond holders can an should engage on a collaborative basis to change issuers' approaches to consideration of climate change and other sustainability issues, but often cite legal risks as a key obstacle. *The Committee should press the FCA on the possibility of publishing clear guidance for fixed-income investors on how they can act as good stewards of capital and tackle climate change.*

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[1] ShareAction (2020). *Point of No Returns: A ranking of 75 of the world's largest asset managers' approaches to responsible investment.* Available online at: https://shareaction.org/wp-content/uploads/2020/03/Point-of-no-Returns.pdf [accessed 14 April 2020].

[2] ShareAction (2019). *Is Regulation Enough?: A review of UK master trusts' ESG policies.* Available online at: https://shareaction.org/wp-content/uploads/2019/12/Master-Trusts-Review.pdf [accessed 14 April 2020].

[3] ShareAction (2018). *Pensions for the Next Generation: Communicating What Matters,* p. 13. Available online at: https://shareaction.org/wp-content/uploads/2018/03/NextGenerationPensions.pdf [accessed 14 April 2020].

We would welcome the opportunity to discuss our proposals further. If we can provide any further information in the meantime please get in touch.

Yours sincerely,

Fergus Moffatt
Head of UK Policy, ShareAction