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Rt Hon Sir Keir Starmer QC MP
Leader of HM Opposition
House of Commons
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21st April 2020

Sent by email

Dear Sir Keir,

Response to your paper "Internationalising the Green New Deal"

Further to your Climate Listening event in Birmingham on 8th March, please see below some written thoughts on your paper "Internationalising the Green New Deal", with specific reference to the section on 'Finance'.

ShareAction is a campaigning organisation promoting responsible investment. We seek to reform our investment system so it can work as a force for good, and can effectively mitigate financial risk and enhance the opportunities which stem from environmental, social and governance (ESG) factors. To do so we need a regulatory framework which incentivises this behaviour and that encourages greater transparency and accountability to the ultimate providers of capital, (in particular pension savers), so that ESG issues such as climate change are factored into their investment decisions.

As your paper highlights, capital markets are threatened by climate change, and have the potential to stop it. We advocate a number of regulatory reforms to facilitate this.

1) ***Statutory duty for institutional investors to consider wider interests of clients and beneficiaries***

   Institutional investors wield huge influence over the governance of companies that are contributing to climate change. As referred to in your paper, large asset management firms such as BlackRock as publicly stating the need to address climate change, yet they are failing to do so in practice.

   A statutory duty for company directors to consider the wider interests of the company, including environmental factors, is spelled out in Section 172 of the Companies Act 2006. No equivalent provisions are in place for institutional investors. Getting a 'Section 172 for institutional investors' on the statute book would make clear their responsibilities in this regard.

2) ***Statutory duty for investors to publish an ESG policy statement***

   Investors should be required to publish a policy statement, setting out the benefits they commit to pursue for the ultimate beneficiaries, and then report on delivery of this.

From 1st January 2020, an updated version of the UK Stewardship Code was published by the Financial Reporting Council. This included a requirement for investors to publish an annual 'Stewardship Report', which would outline their progress on climate-related matters. Most large asset managers are signatories to the previous version of the Code, issued in 2012, and we have yet to see whether they will sign up to the more stringent 2020 Code.

However, the lack of enforcement mechanism for this means that, even if investors do pledge to issue Stewardship Reports, if they fail to do so there is no sanction against them. At a minimum, the FRC (or its successor regulator, the Audit, Reporting and Governance Authority) should be empowered to 'delist' investors as official Code signatories if they fail to comply with it.

Furthermore, the Stewardship Code is voluntary. It would be even more effective to legally require asset managers to publish ESG policy statement, and report on progress in delivering its objectives.

3) Mandatory voting disclosure by institutional investors

Too often, the ultimate beneficiaries of institutional investors are in the dark as to how they vote at company AGMs. There is too little information on whether they chose to vote with the board of directors, and or failed to support shareholder resolutions aimed at tackling climate change. We need to know they are upholding their fiduciary duty to protect assets in the long-term from climate risk.

Introducing mandatory disclosure of voting at AGMs is needed. Publishing this information will enable engagement with investors on how they need to start doing more on climate change.

4) Mandatory TCFD reporting for financial institutions

The Taskforce for Climate-related Financial Disclosures (TCFD) published their final recommendations in 2017. These outlined a comprehensive framework that all financial institutions can use to report how they are mitigating the threat of climate change to their business models. The recommendations cover governance, strategy, risk management, and metrics and targets.

Upon publication the UK Government formally endorsed the TCFD recommendations, but stopped short of making them mandatory. Voluntary uptake of TCFD has been slow. ShareAction's new survey of asset management firms showed that while 73% of firms surveyed endorsed TCFD, only 19% of them were reporting in line with TCFD recommendations.[1] By making all TCFD reporting mandatory, all financial institutions, including asset management firms and their pension fund clients, will have access to the information needed to act constructively in response to the climate threat.

We have seen that greater disclosure can be a spur to greater action on climate. In 2015, France passed the Energy Transition for Green Growth Bill, whose provisions echo the TCFD recommendations. In 2017 a ShareAction study highlighted the positive impact this Bill had on the French banking industry, compared to their counterparts elsewhere in Europe. The study ranked European banks on how well prepared they were for the low-carbon transition. French banks outperformed in the survey, not just because of the quality of their disclosures, but because they had pledged action as a result - for example, BNP Paribas pledged to double its financing of renewable energy to €15 billion by 2020.[2] It should be noted that British banks

[1] ShareAction (2019). *Point of No Returns: A ranking of 75 of the world's largest asset managers' approaches to responsible investment,* p. 8. Available online at: https://shareaction.org/wp-content/uploads/2020/03/Point-of-no-Returns.pdf [accessed 24 March 2020].

[2] ShareAction (2017). *Banking on a Low-Carbon Future: A ranking of the 15 largest European banks' responses to climate change,* p. 8. Available online at: https://shareaction.org/wp-content/uploads/2017/12/BankingRanking2017.pdf [accessed 24 March 2020].

fared poorly in the same survey. Introducing some mandatory climate disclosure measures could go some way to change this.

5) Require pension schemes to align with the Paris Climate Agreement

Further down the investment chain, the fiduciary duty of pension scheme trustees to mitigate climate risk is also not being upheld. Our 2018 survey of large automatic enrolment pension providers found that, excluding of one scheme, most pension savers are effectively subject to a 'climate risk lottery', with massive variance in how effectively trustees are addressing the threat of climate change to savings.[3] This indicates trustee boards of many large pension schemes are failing to take adequate steps to mitigate climate risk, and use financial leverage of their schemes are a force for good in tackling climate change.

Introducing a legal requirement for pension schemes to align with the Paris Climate Agreement would catalyse the action needed. Schemes would need to review their investment strategies to ensure compliance. This would go some way to protecting pension scheme assets, and help drive the total £3 trillion in UK private pension funds towards fighting climate change.

6) Guidance for fixed-income investors on climate change

While the focus on 'greening' finance has rightly centred on listed equity, on average the second largest portion of a fund's investments will be in bond holdings. Bond holders can and 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 Financial Conduct Authority should publish clear guidance for fixed-income investors on how they can act as good stewards of capital and tackle climate change.

7) Review carbon trading, taxes and subsidies

We should assess new ways of taxing or trading carbon, or make current measures more effective. We should consider what signals government policy is sending to financial markets about how they price in externalities such as carbon emissions.

I hope this provides some concrete proposals that Labour, and in particular the shadow Treasury, BEIS and DWP teams, could advocate for during this Parliament. Where the Government fails to deliver reforms, there are opportunities for Labour in opposition to collaborate with other organisations to apply pressure. There are initiatives underway in industry – for example, the UN Environment Programme has convened working groups within the banking and insurance sectors on how to implement the TCFD recommendations. At a local government level, ShareAction has for many years engaged with local authority pension schemes about improving practice with regard to climate risk. Where central government has failed to take the initiative, industry, local government and other actors can lead the way.

In terms of implementation of these reforms, there are two key mechanisms at present by which this can be achieved:

- *Pensions Schemes Bill 2019-20* – at time of writing this Bill is about to pass through the House of Lords before being debated in the Commons. We have drafted amendments to this, including provisions to align pension schemes with the Paris Climate Agreement.
- *Responsible Investment Bill* – this is an entire piece of legislation ShareAction has written, which includes most of the aforementioned reforms. ShareAction has set up an APPG for

[3] ShareAction (2018). *The Engagement Deficit: Ranking auto-enrolment pension providers on responsible investment and member communications and engagement,* p. 41. Available online at: https://shareaction.org/wp-content/uploads/2018/06/TheEngagementDeficit.pdf [accessed 24 March 2020].

Sustainable Finance in association with UK100, and will formally launch the Bill via this Group.

I hope this is useful for informing Labour's agenda on climate policy and how capital markets can be utilised in this regard. If I can provide any further detail on this, please do get in touch.

Kind regards,

David O'Sullivan
UK Policy Officer
ShareAction