Consultation on clarifying and strengthening trustees' investment duties

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Introduction

The Committee on Climate Change (CCC) was established under the 2008 Climate Change Act. The Adaptation Sub-Committee (ASC) of the CCC provides independent, expert advice on preparing for and adapting to climate change to UK and devolved governments and parliaments.

Response to proposals

We support the proposal to require trustees to state their policy on the evaluation of climate change and separating it from other environmental risks and opportunities.

However, we suggest that the proposal should request trustees to specifically consider both climate change mitigation and adaptation. Organisations are often more familiar with reporting on mitigation (see below evidence) and may interpret consideration of climate change as only referring to reducing greenhouse gas emissions. It is critical that organisations also consider the risks they face from the physical impacts from climate change, for example risks from extreme weather events, flooding, higher temperatures and reduced water availability, as well as the opportunities in adapting to these changes.

Evidence from the ASC's 2017 report

In the ASC's most recent progress report (https://www.theccc.org.uk/publication/2017-report-to-parliament-progress-in-preparing-for-climate-change/) our analysis found that the risks from climate change to businesses, including those in the financial sector, are increasing, with extreme weather events such as flooding likely to pose the greatest risks. Disclosures and reporting by companies on this and their adaptation measures were a particular focus for our analysis this year. We are pleased to note that the environmental, social and governance (ESG) performance of listed companies is becoming a mainstream concern within the investment community and many leading companies now report on their assessment of climate change risks and opportunities. However, the risks and opportunities that will arise from the process of the UK leaving the European Union is likely to feature highly in company risk registers and to some extent will dominate board-level discussions for some time.

Reporting on climate change adaptation is done predominantly by publicly listed companies. Much of this reporting, if not considered a material risk, is completed on a voluntary basis, compliance is far from uniform and standards of reporting vary between organisations. Companies understandably choose to highlight their best practice examples, which may not be representative of normal practice. In addition to this, corporate sustainability reports often focus more on carbon reduction than climate change adaptation. While Non-Financial Reporting Regulations require financial reports to contain sufficient information to understand the impact of a company's activity relating to environmental matters, the regulations are no more prescriptive than this, so the degree to which they will result in companies reporting on the steps they are taking to adapt to climate change remains to be seen.

The recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD) on behalf of the Financial Stability Board (FSB), are more uniform and ambitious. The task force has divided climate risks into two major categories: risks related to the transition to a lower-carbon economy; and risks related to the physical impacts of climate change. These physical impacts include acute risks, such as extreme weather events, and chronic risks which refer to longer term shifts in climate patterns. The TCFD's suggested disclosures across governance, strategy, risk management and particularly metrics and targets can play an important role in allowing companies and their investors to measure progress in preparing for climate change.

Based upon our analysis we made the following recommendation to government in our 2017 report.

The Government should promote voluntary disclosure of climate change risks by both large and small companies, including the risks in relation to supply chains.

- *The investment community should further emphasise the need for meaningful disclosure of how companies assess and manage climate change risks, in line with the recommendations of the Task Force on Climate-related Financial Disclosures.*

- *The Financial Reporting Council's UK Stewardship Code should ask investors to consider company performance and reporting on adapting to climate change.*

- *As a form of disclosure, the Government should promote corporate natural capital accounting and reporting, as recommended by the Natural Capital Committee.*

(Owner: Defra/BEIS. Timing: by 2020).