Recommendations of the Task Force on Climate-related Financial Disclosures – review of local relevance

UNITED KINGDOM

1. Background - why this review?

Without better climate disclosure, investors cannot manage risks and opportunities associated with an energy transition. In December 2016, the industry-led FSB Task Force on Climate-related Financial Disclosures (TCFD) released its draft recommendations. The Principles for Responsible Investment (PRI) and global law firm Baker McKenzie have together produced a series of country reviews examining how these voluntary recommendations integrate into existing regulation and soft law in specific markets, and how investors and companies in those markets can apply them. The country reviews cover Brazil, Canada, the EU, Japan, and the United Kingdom (UK).

This review describes the UK's climate change-related commitments (which are summarised in Appendix 1), and then considers existing regulation and policy on climate risk-related disclosure for companies, and investors/pension funds. Its analysis builds on the findings of the Fiduciary Duty in the 21st Century UK Roadmap developed by the PRI, UNEP FI and The Generation Foundation to overcome barriers to integrating ESG throughout the investment chain. It also draws on the regulatory analysis from PRI and MSCI's Global Guide to Responsible Investment Regulation, which examined the breadth of responsible investment-related public policy initiatives across 50 economies, including the UK.

The PRI's response to Baker McKenzie's findings

The TCFD's recommendations are voluntary and do not supersede national disclosure requirements. In the UK, existing regulation already requires disclosure of material risks. The TCFD's recommendations will assist in implementing existing UK regulation and soft law instruments. Implementation of the TCFD will also support meeting the UK's national climate change commitments under The Paris Agreement (see Appendix 1).

Three practical actions for better climate disclosure in the UK

1. Government: the UK government and regulators should endorse the TCFD's final recommendations, including the FRC, PRA and The Pensions Regulator.
2. Company and investor adoption: companies and investors should adopt the TCFD recommendations as a useful voluntary framework for climate disclosure.
3. Collaboration on implementation challenges: sharing of good practice will assist in overcoming initial challenges, with convergence in reporting frameworks needed in the longer-term.

Action the PRI will take

The PRI has over 1,700 signatories in 50 countries, representing over US$72 trillion in assets under management. In 2017-18, the PRI will support UK PRI signatories in:

- Active ownership: we will convene collaborative global investor engagement with companies to adopt the TCFD's final recommendations.
- Investor disclosure: we will evolve the PRI's Reporting Framework with the TCFD's guidance for asset owners and asset managers.
- Investment practices: we will advance investment practices in assessment and management of climate-related risks and opportunities.
- Collaboration with policymakers: we will draw on our expertise in investment practices and ESG-relevant policy in several capital markets to encourage G20 policymakers to implement the TCFD.
- Addressing barriers around responsibility investment: The PRI has set out its priorities for the next 10 years in its Responsible Investment Blueprint, published in May 2017. The PRI's work will include climate change, fiduciary duty, ESG disclosure and a sustainable global financial system.

A wide range of companies and investors globally are aligned with the TCFD in relation to the material financial risks posed by climate change, and the role best practice climate risk analysis and disclosure can play in understanding these risks and their implications for existing assets and potential investments. Company law in the UK already requires most large organisations to disclose material financial risks to their businesses, and in some cases this extends to the disclosure of climate-related and other ESG risks.

This review concludes that the UK's existing regulation on disclosure is comprehensive and that (unlike many other developed nations) it integrates, to some extent, sustainability risks into the broader financial risk analysis and disclosure framework. However, the adoption of a number of the TCFD's recommendations would assist materially in ensuring better climate risk mitigation in the UK, facilitating better investment decisions and assisting with the maintenance of financial stability, as the UK and its global trading partners seek to transition to a lower carbon economy.

In particular, improvement of existing disclosure requirements would involve:

- more specific guidance in the existing regulation regarding best practice climate risk analysis and disclosure, and clear signals on the need to incorporate this analysis into general financial reporting;
- companies being required to undertake a more forward-looking consideration of climate change risks and their potential impacts on investments and company liabilities, in line with the TCFD's detailed recommendations; and
- an increase in the scope and detail of existing disclosure requirements, to promote better risk management and improve investor confidence in climate disclosure as part of wider financial reporting.

2. Private sector regulation

2.1 Disclosure requirements for companies

In the early part of 2016, the PRI mapped out all existing responsible investment policy - almost 300 individual policy tools or market-led initiatives, covering the relationship between finance and ESG issues. These measures can be broadly grouped into three main categories which relate to different parts of the investment chain: pension fund regulations, stewardship codes and corporate disclosure requirements.

Presently, UK rules do not expressly require UK companies to have in place strategies to address future climate change risks, although these risks may be integrated as part of financial risk analysis where applicable, and/or in line with disclosure obligations on environmental matters. A snapshot of UK regulations and policy that are relevant in some respects to ESG and climate risk-related disclosures by companies are set out in PRI's regulatory mapping tool, which forms part of its Global guide to responsible investment regulation. More detail on relevant regulation in the UK is set out below.

The UK's primary corporate disclosure obligations relevant to climate risk are found in general company law regulation. While this regulation does not usually prescribe the scope and detail of climate or ESG-related risk analysis and disclosure, a number of guidance and policy instruments are in place to assist companies in understanding their obligations, and best practice, regarding this disclosure. As with most regulation, current industry practice may be relevant to interpreting obligations and guidance, including materiality assessments.

To view the UK's complete responsible investment framework, visit the PRI's Regulation Map.

For each measure, it indicates the nature of the rule, the year of implementation, the authority responsible, whether the measure is voluntary or mandatory, and if it addresses ESG issues in isolation or in combination. It also provides commentary on the key clauses relating to ESG factors and investment.

To view the map and download the full methodology, visit the PRI website.

For further information, email policy@unpri.org

Financial disclosure: Strategic report

The UK Companies Act 2006 (Companies Act) imposes a duty on company directors to prepare a strategic report for each financial year (other than where an exemption applies). The strategic report's purpose is to inform members of the company, and help them assess how the directors have performed in their duty to "promote the success of the company". It must contain:

- a fair view of the company's business;
- a description of the principal risks and uncertainties facing the company;
- to the extent necessary for an understanding of the development, performance or position of the company's business, analysis using key financial performance indicators (KPIs), and where the company is a quoted company,[1] other KPIs including environmental matters – in this context, KPIs means factors by reference to which the development, performance or position of the company's business can be measured effectively.

The report must also include the main trends and factors likely to affect the *future* development, performance and position of the company's business, including environmental and social matters, including information about the company's policies on relation to such matters and the effectiveness of those policies. If this information is not included, the report must state this.

The strategic report must be approved by the company's board of directors. Importantly, each company director commits an offence where the report is approved despite being non-compliant with the Companies Act requirements. This is the case either where the directors were aware of or reckless as to the non-compliance, or they failed to take reasonable steps to ensure compliance or prevent the non-compliant report from being approved.

Climate-related (and other ESG) risks to a company, and its success, clearly have relevant implications in this context, i.e. they may pose risks and/or create uncertainties for certain companies which should be disclosed in order to ensure a clear understanding of, and ability to measure, the company's position, including its *future* position. For example, climate risks such as competitiveness / strategic risks to sectors which involve higher-emitting technologies, or facilities at physical risk from extreme weather events or sea level-rise, have the potential to impact on the associated companies' business models and strategies and future cash flows. Additionally, we would ordinarily expect that any issue document relating to an issue of shares would take into account the potential for climate-related risks that could affect the future financial position of the company. Failure to include such risks could potentially lead to shareholder action against the company, in particular for companies having a particular sensitivity to climate related risks (for example, agricultural companies).

It is evident that these risks should be considered by companies as part of their wider financial and strategic analysis, and disclosed along with other principal risks and uncertainties as required in the strategic report, in order to comply with the regulation. However, climate-related risks may be highly uncertain due to the range of scenarios in which they must be considered, global and national political uncertainties, and that these risks have not historically formed part of corporate financial risk analysis. Environmental matters have until recently been more commonly integrated into corporate decision-making and reporting as more voluntary, non-financial / ethical considerations, meaning for many companies, it is not yet the norm to incorporate them into financial risk analysis.

[1] "Quoted companies" are defined in section 385(2) of the Companies Act 2006 as companies incorporated in the UK and whose equity share capital is listed on the main market of the London Stock Exchange UK or in a an EEA State, or admitted to trading on the New York Stock Exchange or Nasdaq.

This is where the adoption of reporting standards such as those envisaged by the TCFD can assist significantly by helping:

- corporate entities understand the real financial implications of climate-related risks and their potential impacts on business models, strategy and cash flows;
- investors understand if, and how well, companies are conducting this analysis; and
- normalise this analysis as part of good corporate governance in the UK.

The detailed and forward-facing risk assessment proposed by the TCFD may also reveal opportunities for companies, which would not have been easily identifiable where climate risk is not considered in detail or in relation to their financial implications.

To the extent climate-related risks are not financial risks or uncertainties, for certain companies – traded companies, banking companies, and insurance companies which are not small or medium-sized companies - section 414CA of the Companies Act 2006 (as inserted by the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 requires the strategic report to include a non-financial information statement. This statement must include information necessary to understand the company's development, performance and position and the impact of its activity, including principal risks regarding environmental and social matters, its business relationships, products and services which are likely to cause adverse impacts in those risk areas, and a description of how it manages those risks.

In relation to corporate greenhouse gas (GHG) emissions disclosure specifically, quoted UK companies are required under the Companies Act to disclose the annual quantity of emissions in tonnes of CO_2.e from the company's activities, including the combustion of fuel, and the operation of any facility, as well as resulting from the purchase of electricity, heat, steam or cooling by the company. These provisions apply to the extent it is practical for the company to obtain such information, but where it is not included, the report must state what information is not included, and why.

These disclosure obligations are substantially less detailed than the ideal level of emissions disclosure envisaged under the TCFD recommendations. Accordingly, the TCFD recommendations provide useful detail for quoted companies seeking to improve the quality of their disclosures relating to climate change risks and in formulating their strategic response to such climate change risks.

While non-quoted companies are not strictly required to report their GHG emissions, or climate-related risks or strategies, the Department of Environment Food and Rural Affairs (DEFRA) and the Department of Energy and Climate Change, jointly released guidance under section 83 of the Climate Change Act 2008 on how companies can measure and report their GHG emissions (Section 83 Guidance).

Directors’ duties

In the same way companies may need to integrate climate risk analysis into decision-making and wider financial reporting, company directors may need to have regard to such risks in order to ensure the proper discharge of their legal duties. Included in the duties of directors under the Companies Act are:

- the duty to promote the success of the company: to act the way the director considers, in good faith, would be most likely to promote the company's success for the benefit of its members, having regard to the likely consequences of any decision in the long term, and the impact of the company's operations on the environment; and
- the duty to exercise reasonable care, skill and diligence: i.e. to exercise that care, etc of a reasonably diligent person with the expected knowledge, skill and experience of someone in his or her position.

The emphasis on *long term* consequences of company decision making is particularly relevant to climate risks, as for many organisations, the most significant climate-related effects are unlikely to arise in the short term. The TCFD argues that medium and long term analysis of risks, and strategic planning based on the results of that analysis, will lead to better overall risk management within companies. Such analysis will in turn assist directors in better understanding the climate risks – and opportunities – posed to their companies and discharging these duties. Similarly, directors exercising at least the minimum standard of diligence will increasingly require more detailed and reliable information on climate risks, which companies will need to be in a position to provide.

UK Corporate Governance Code

The UK Corporate Governance Code (Governance Code) sets standards of good practice on board leadership and effectiveness, remuneration, accountability and relations with shareholders, on the basis that the purposes of corporate governance is to facilitate effective and prudent management in order to ensure long-term success for companies. It is administered by the Financial Reporting Council (FRC).

All companies with a Premium Listing of equity shares in the UK must report on their application of the Governance Code, in a way that would enable shareholders to evaluate how its principles have been applied and specific provisions complied with. Where a company has not complied with any provisions of the Governance Code, it must state those provisions, along with reasons for the non-compliance. In some cases, disclosure is required in order to achieve full compliance.

Relevantly, the Code requires:

- boards to be supplied with timely information in a form and of a quality appropriate to enable it to discharge its duties;
- boards to present a fair, balanced and understandable assessment of their companies' position and prospects;
- boards to be responsible for determining the nature and extent of the principal risks they are willing to take to achieve their strategic objectives, and for maintaining sound risk management and internal control systems; and
- directors remuneration to be designed to promote the long-term success of the company.

2014 amendments to the Code focussed on the provision by companies of information about risks affecting *long term* company viability.

The Financial Reporting Council, which administers the Governance Code, publishes guidance to boards to assist them in considering how to apply the Code to their particular circumstances. It also aims to encourage engagement between investors and boards through the UK Stewardship Code.

Neither this Code, nor the Governance Code, expressly address climate or other ESG risks in any detail. However, identification and disclosure of medium and long term risks posed to companies by climate change, if any, would appear to be an essential aspect of achieving compliance with the Governance Code. The TCFD framework provides detailed guidance on best practice for identifying such risks, and disclosing them.

FCA Handbook listing rules

The Financial Conduct Authority (FCA) listing rules are applicable to any company listed on a UK stock exchange. They set out mandatory standards for any company listing shares or securities for sale to the public, including compliance (or explanation of non-compliance) with the Corporate Governance Code.

Other relevant regulatory guidance

FRC Guidance on Strategic Report

The FRC has published guidance to assist companies in preparing the strategic report referred to above, by outlining the required content, and communication principles to be taken into account as part of good financial reporting. This guidance, published in June 2014, encourages companies to take an innovative approach in preparing their reports, presenting narrative information that "tells the company's story" while remaining within the regulatory framework. It is a non-mandatory instrument that aims to provide best practice guidance.

The guidance specifically addresses the coverage of environmental matters as required in the strategic report, and outlines matters which a company should ideally report on in this respect. It makes clear that disclosures about the environment are required when material, but is less clear on the integration of these issues into company's financial risk analysis. These include describing the due diligence processes which the company uses to assess actual or potential impacts arising from its activities and business relationships, to integrate findings and take action to mitigate identified adverse impacts, track effectiveness of its actions, and communicate them externally. Ideally this should be done by reference to KPIs, where the company uses these. It does not specifically mention treatment of climate risks (or any other specific ESG risk) in this context.

Environmental reporting guidelines

This guidance aims to assist:

- companies reporting on environmental performance, including GHG emissions, in their strategic report; and
- all organisations carrying out voluntary reporting on environmental matters. It acknowledges that some public bodies may need consider reporting GHG emissions or other environmental issues under applicable legislation.

It sets out suggested, detailed principles to be applied when collecting information and reporting on environmental impacts, particularly with respect to ensuring the usefulness of the information for its users. These include:

- that the data collected is reflective of the company's environmental impacts and assists in decision-making needs of users (internal and external);
- that KPIs selected for reporting are measurable (e.g. against a target);
- accuracy, completeness, transparency, consistency and limitation of uncertainty to the extent possible; and
- ability to compare between companies by adopting accepted KPIs (with narrative detail to explain any aspects of accepted KPIs which require further explanation or qualification in the context of the specific company or its activities.

It then provides step-by-step guidance on best practice for data collection, analysis and reporting, with sector-specific considerations. While not binding, the Section 83 Guidance is intended to have a normative effect in establishing common principles to standardise carbon and other environmental assessment reporting. The guidance also includes specific guidance for small business.

The London Stock Exchange issued a guidance in February of 2017 (LSE Guidance) on ESG reporting, to improve listed companies' engagement with their shareholders on ESG-related matters as part of the United Nation's Sustainable Stock Exchanges Initiative's "Campaign to Close the ESG Guidance Gap". The LSE Guidance expressly acknowledged the TCFD recommendations and welcomed their publication.

As the TCFD contains a broader range of climate change-related requirements, it applies to a broader range of entities than the existing UK company disclosure laws, which apply to quoted companies (and in relation to the non-financial statement of the Strategic Report under the Companies Act, certain traded companies, banks and insurance companies). The TCFD recommendations are intended to apply to all corporate entities, but in particular to lenders, investors and asset managers, as well as intermediaries for these entities (such as benchmarks and ratings agencies). The TCFD framework would require such entities to consider how their investment decisions are being made and to factor climate change related risks in their business and strategic decision-making.

For a complete analysis of the evolving landscape of fiduciary duty in the UK market, download the Fiduciary Duty in the 21st Century UK Roadmap developed by the PRI, UNEP FI and The Generation Foundation.

The roadmap builds on conversations with over thirty key market stakeholders and makes recommendations to implement clear and accountable policy and practice that embraces the modern interpretation of fiduciary duty.

The project team is engaging market stakeholders to implement these recommendations.

The UK roadmap is part of a larger work programme on fiduciary duty, for more information, visit www.fiduciaryduty21.org.

2.2 Climate change-related aspects of pension fund/investor regulation

Financial and credit institutions in the UK are regulated by the FCA and, for some institutions (such as insurers and banks), the Prudential Regulation Authority (PRA). The FCA has oversight responsibility for conduct-related matters (for example, consumer protection matters and market abuse), whereas the PRA supervises the financial safety and soundness of regulated firms.

Given the focus on the potential financial harm caused by climate change risks, it is understandable that the PRA has taken a more active role in addressing climate change risk than the FCA. In addition to the FCA and the PRA, The Pensions Regulator regulates occupational pension funds in the UK.

Asset owners and institutional investors

(a) Relevant requirements

There are few express requirements on asset owners or institutional investors to have regard to climate change-related risks, or consider disclosed financial information relating to such climate risks.

Under the Occupational Pension Schemes (Investment) Regulations 2005, occupational pension schemes are required to include in their statement of investment principles the extent to which they take into account, amongst other things, environmental matters. Additionally, The Pensions Regulator's updated guidance for defined contribution pension schemes (DC Schemes) notes that environmental risks could be financially significant. Importantly, while it acknowledges the requirements for such schemes to maximise returns for beneficiaries, the law is sufficiently robust to permit trustees of such schemes to take into account other non-financial factors, such as environmental concerns.

In respect of the insurance sector, in September 2015 the PRA published its report on "The impact of climate change on the UK Insurance sector" (PRA Report). This report highlights some of the climate change risks faced by insurance entities, and how those risks are likely to impact their businesses. The PRA report breaks down climate change risks into physical, transitional and liability risks (largely mirroring the breakdown in the TCFD report which focuses on physical and transitional risks) and how each of those risks can impact on insurance entities. The PRA breaks down these risks into risks that *affect assets held* by insurance entities and risks that are likely to *impact on the liabilities* of insurance entities.

In recent years, and as recognition has grown of the potential financial risks posed by climate change related matters in relation to investable assets, it is clear that asset owners and other financial institutions should continue to monitor and have regard to the potential risks to their portfolio of climate related matters.

(b) Relevant guidance and examples of industry practice

The PRI Reporting Framework is the largest global reporting project on responsible investment, developed with investors, for investors. Asset owner signatories are required to report on their responsible investment activities annually.

In 2017, 43 UK asset owners reported on the PRI's voluntary climate change indicators. 81% of these see climate change as a long-term trend that will impact on investment decisions. 49% seek integration of climate change by companies, 40% use carbon footprinting, 37% use scenario analysis and 12% report that they have an integrated asset allocation strategy.

(c) Intersection and compatibility with TCFD recommendations / implementations strategies

The guidance issued by The Pensions Regulator in respect of pension funds is not provided in detail, and is designed to provide trustees with sufficient flexibility to make their own determinations of how climate change risks may impact their future investments. Accordingly, the TCFD recommendations provide a useful guide to standardise and clarify the approach taken by such pension trustees and to assist trustees in understanding the full extent of best practice climate risk analysis and disclosure, in the absence of detailed further guidance.

Similarly, while the PRA Report goes further than the rules on quoted companies noted above, by having insurance entities consider the balance sheet impact of climate change-related risks the TCFD recommendations are still likely to be relevant to insurance entities. The TCFD recommendations require entities to not just consider the balance sheet impact of climate change risks, but to also have in place strategies to mitigate such risks, and importantly, to take advantage of climate change-related opportunities. The TCFD recommendations also involve entities disclosing such climate change risk strategies and the role that management has had in considering and addressing them.

Disclosure of these strategies is likely to enable investors in insurance entities to better consider how proactively the insurance entity is managing its climate change-related exposures and to adjust their investment decisions accordingly. Therefore, while the PRA Report contains a detailed and considered break down of the impacts of climate change risks on insurance entity's balance sheets, the TCFD recommendations contain useful guidance on further and more strategic considerations that could also be adopted by such insurance entities.

Asset Managers

(a) Relevant requirements

The Stewardship Code mentioned above sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. The FCA requires UK authorized asset managers to report on whether or not they apply the Code. Investors that apply the code report against its principles on a comply-or-explain basis. The FRC publishes statements of commitment to the code on its website and announced that in 2016 it would begin publicly ranking signatories, based on the quality of their disclosures against the code.

Related to this at EU level are the proposed revisions to the EU Shareholder's Directive (2007/36/EU), which will set out minimum standards to ensure that shareholders have timely access to relevant information ahead of general meetings. They will provide, among other things, that asset managers should be required to publicly disclose how their investment strategy and its implementation contributes to the medium to long term performance of the assets, and that directors' remuneration is to be aligned with medium and long term company growth objectives, rather than only short term gains. These rules are not yet in force and will need to be transposed into national law in the UK before taking effect.

As awareness grows of the impact that climate-related risks and opportunities may have on investment returns, there is an increasing need for asset managers to take these factors into account when making financial decisions. While there are currently few rules requiring climate-related risks to be specifically taken into account by asset managers, it is arguable that failure to consider climate-related risks could breach numerous FCA requirements on different types of authorised institutions. For example:

1. Under COBS 11 of the FCA Handbook, when making a personal recommendation to trade, a firm is required to take reasonable steps to ensure that the investment is suitable for the client, having regard to a number of specified factors. If the firm making such a recommendation did not consider the possible environmental and climate related impacts on this investment (particularly where a client has indicated an investment objective looking at long term growth), it is arguable that the firm would not be meeting this expectation;
2. Certain fund managers in the UK are required to prepare Key Investor Information documents under the COLL Sourcebook of the FCA Handbook. These documents are required to contain, amongst other things, warnings of the risks associated with investments in the scheme. These risks may include climate related risks that could impact on future investments in the fund. For example, funds which invest in industries that are particularly exposed to climate risks, would need to disclose those risks in the key information document. Failure to do so is likely to result in legal action against that fund manager; and
3. The SYSC Sourcebook requires firms to have effective processes in place to identify, manage, monitor and report on risks that the firm is exposed to. This requirement is drafted broadly, and is intended to capture relevant risks to the firm, including the potential climate related risks. A breach of these requirements could result in the FCA taking action against the firm.

While the above requirements do not specifically impose a requirement to consider climate-related risks, they are broad enough to require firms to take into consideration such climate and environmental risks. As awareness of these risks grows, it is likely that more firms will actively take into account the financial impacts of such climate risks, rather than simply leaving environmental matters to be considered from a non-financial perspective only. Guidance and recommendations like the TCFD drive awareness of these risks, which in turn make it more difficult for fund managers and regulated firms to turn a blind eye to the potential financial impact of climate change and other environmental matters.

(b) Relevant guidance and examples of industry practice

As described in the section above on asset owners, the PRI Reporting Framework is the largest global reporting project on responsible investment, developed with investors, for investors. Investment manager signatories are required to report on their responsible investment activities annually. In 2017, 135 UK investment managers reported on the PRI’s voluntary climate change indicators. 67% of these see climate change as a long-term trend that will impact on their investment decisions.

(c) Intersection and compatibility with TCFD recommendations/implementations strategies

Adoption of the TCFD framework would assist asset managers in working towards these aims and understanding medium/long term exposure of investments – particularly the recommendations regarding the use of scenario analysis.

3. Conclusion

The UK has an advanced body of ESG disclosure requirements and specifically climate risk-related disclosure regulation, through both general corporate reporting requirements, and ESG risk-related guidance and policy.

However, some areas of regulation and policy in particular which would benefit from the adoption of a broader framework of the kind envisaged by the TCFD, and particularly more express prescription of, and guidance in relation to, climate and other ESG risks, as *financial* risks where applicable. This would lead to a more comprehensive and forward-looking approach to climate risk analysis. It would compel companies to engage in medium and longer term consideration of risks and opportunities presented by decarbonisation, and disclose this thinking to the market in a way that is reliable and able to be understood (and effectively compared with relevant disclosures by other companies) by investors.

Further and more detailed regulation and policy in relation to ESG reporting, promoted by the UK government and applicable as widely as possible, will also assist in signalling to the market that this kind of disclosure is a now a key element of effective company risk management in the current climate.

Appendix 1: Summary of UK climate change commitments

Over 146 parties have ratified the Paris Agreement. Its central aim is to strengthen the global response to climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The goal is feasible, but only if emissions peak by 2020 at the latest. The Paris Agreement requires all parties to put forward “nationally determined contributions” (NDCs), including a requirement to report regularly on their emissions, and on their implementation efforts. In 2018, parties will take stock of the collective efforts to progress towards the goal set in the Paris Agreement.

The United Kingdom's NDC forms part of the NDC submitted by the European Union (EU) and its Member States in March 2015. This NDC sets out a target of an at least 40% absolute reduction in GHG emissions by 2030, compared to 1990, to be fulfilled jointly. The proposed reduction can be further broken down into a 43% reduction within sectors which participate in the EU Emissions Trading Scheme (ETS), and 30% in non-traded sectors.

Potential investment opportunities created by the NDC and underlying emissions reduction planning are currently unclear, as it remains to be seen how the UK will ultimately participate in global emissions reductions efforts, following its proposed withdrawal from the EU.

Possibilities include the UK creating a new ETS linked with the EU ETS, or negotiating to continue with its existing involvement in the EU ETS and other EU emissions reduction efforts. The independent UK Committee on Climate Change (Committee) recommended in October 2016 that where EU-level mechanisms are working effectively, the UK should either seek to remain involved in those mechanisms, or to replicate them at UK level.

The UK itself has adopted a series of carbon budgets, some of which have already been met. The 2028-2032 target requires a 57% GHG emission reduction by 2030. The Committee concluded in October 2016 that the requisite reduction in emissions to achieve this target is significant, and requires "strong new policies that set a clearer direction across the economy". The Committee noted that existing EU level mechanisms will be sufficient to achieve only 55% of the emissions required by the UK to 2030.

The existing policies that are noted as falling within this category include:

- product and efficiency standards and labelling;
- new vehicle fuel efficiency standards;
- the F-gas regulation, which limits the use of F-gases within the EU;
- participation in the EU ETS;
- sectoral targets such as the landfill reduction and the promotion of biofuels uptake; and
- measures aimed at easing future decarbonisation tasks, including research and collaboration on new low-emission technologies.

Key impacted sectors, as for most UNFCCC parties, will include the remaining fossil-fuel based energy providers. The UK intends to close all coal-fired power plants by 2025, and continues to promote greater use of electricity from low-carbon technologies (including sustainably sourced biofuels). Industrial energy efficiency is a major focus of the UK's existing emission reductions efforts.

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PRI Principles for Responsible Investment

About the Principles for Responsible Investment

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. The principles have over 1,700 signatories globally, representing over US$72 trillion in assets under management. In the UK, the PRI has 242 signatories including 46 asset owners and 159 investment managers.

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