Written evidence from London CIV (PSC0017)

Q1. How should pension schemes contribute to setting COP26 targets and helping to achieve the targets once agreed?

London CIV Answer: The most critical step for pension schemes should be setting their net-zero targets. Following an initial climate risk analysis to calculate London CIV's climate change impact. London CIV has committed to setting an ambitious net-zero carbon emissions target alongside an interim emissions reduction target ahead of COP26.

Beyond setting GHG targets, pension schemes should also set engagement targets to focus on the highest emitters in their portfolio and set financing transition targets to create more climate positive products. Once these targets are set, they should be reviewed annually to ensure they are in line with best practice and utilising best available data.

As asset owners we must also assess factors other than environmental – considering social and governance risks holistically to ensure a just transition. For example, we ought to look beyond carbon abatement and focus on embedded emissions as well. Analysing the full supply chain is a necessary component to understanding global ESG impacts. Ensuring emissions, poor labour practices and biodiversity risks are not simply offshored. The race to net-zero should not have devastating implications elsewhere.

As providers of capital, asset owners sit squarely at the top of the investment chain. Thus, have a responsibility to support the building of a sustainable economy fit for a low carbon future by influencing investment managers, investee companies and other peers in the wider market to follow best practices.

Q2. What role should international standards have in supporting pension schemes to assess climate change risks when considering scheme investments?

London CIV Answer: International standards such as The Taskforce on Climate-related Financial Disclosures ("TCFD") can support pension schemes assesses climate change risks by standardising climate data, encouraging wider market participation to improve transparency and providing frameworks to help navigate climate risks throughout the investment portfolio.

However, there are many limitations as corporate disclosure quality and uptake rates vary by region and by sector. Most international standards cater for large listed corporations in developed markets. Corporations that do not have the capabilities to implement these international standards may require a more flexible framework and further guidance from their local government on following international standards.

Context setting can also be critical, international standards should support the availability of wider disclosure by providing publicly available data and research which can be used effectively by asset owners looking to better understand, engage on and report on risk.

Q3. Are there suitable financial products to enable pension funds to make climate-conscious investments? How should such investment be facilitated and supported?

London CIV Answer: London CIV have launched six climate and socially conscious products which cater to our clients' investment appetites and strategic asset allocations. We aim to increase the range of products available to our clients that deliver substantial climate change benefits and for them to meet their own climate goals.

One of the key challenges we face is that there is a limited supply of investment products that meet our climate change objectives (low carbon, socially just) and investment requirements (the right risk-return profile). There is a need for collaboration between governments and development finance institutions to catalyse more innovative products – such as blended finance.

Q4. How should the UK seek to share and learn from international best practice?

London CIV Answer: Due to the global nature of the investment industry, we believe the UK should seek to harmonise with existing frameworks and best practices but allowing flexibility for financial participants and companies at different stages of their sustainability journey to adapt to any new regulation or frameworks.

We believe the UK must continue international dialogues to learn from countries demonstrating best practice. From our observations, we believe the European Union remains the most advanced in terms of green finance and standard setting. Due to the UK's proximity to the EU, we believe the UK must learn from the implementation of EU's green rules and observe any lessons learnt from the implementation.

Q5. What regulatory changes or other government action has been most effective in delivering change in the UK; and what changes on the part of governments elsewhere should the UK learn from?

London CIV Answer: European regulations such as the Sustainable Finance Disclosure Regulation have proved quite effective at enforcing financial market participants to disclose sustainability risks and opportunities in an efficient and harmonised way. The reach of the regulation has been felt in the UK by many investment managers. However, as these EU regulations are new there needs to be more support, guidance and blueprints available for financial market participants to utilise.

Mandating TCFD reporting in the UK has proved effective at accelerating timely climate risk disclosure of corporations and financial institutions. If the UK were to follow additional regulatory approaches in line with the European Union, they must ensure proper support is provided to minimise knowledge gaps. We believe in the sustainability space there is an abundance of information on what to do, whereas financial participants require information on how to implement change.

Finally, whilst climate risk remains the focal point for the UK in terms of the regulatory landscape. Broader socioeconomic issues need addressing, to ensure a 'just transition' and think more holistically about socioeconomic concerns. Ensuring the effective collection of taxes from corporations or wealthier individuals could be used to support and subsidise nationwide environmental initiatives for example.

Q6 Do pension schemes have suitable information to assess climate risk, or do there need to be international reforms to financial reporting?

London CIV Answer: Whilst financial data has been available for many centuries, environmental data is relatively new. This means that companies continue to report their greenhouse gas emissions to vary degrees of quality and detail. Some disclosures are made in accordance with global reporting standards and verified by external parties, but others are fragmented and prone to errors.

There is a need for standardisation of climate data for pension schemes to assess climate risk. This is necessary for asset classes outside of listed equities too. We believe there is room to improve on in more “challenging” asset classes such as private debt, infrastructure and real estate.

However, we also believe that we cannot let imperfection be a route to inaction, therefore in the absence of accurate primary data, we also support reliance on innovative models such as scope three analytics and input output modelling by companies and investors to act as a starting point for focussed change.

June 2021