Investment Association Position on Climate Change

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About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.5trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 43% of this is for overseas customers. The UK investment management industry is the largest in Europe and the second largest globally.

This paper confirms climate change as one of the single biggest systemic risks facing society and the planet today and outlines our industry commitment to climate action, including working with UK government to accelerate change and bolster the UK's position as a global leader in sustainable finance.

The paper is structured as follows:

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    c. Empowering Investors to make Informed Choices
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3. Going forward together:
    a. UK Policy Action to achieve Net Zero and set a Global Example
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The Investment Association
Camomile Court, 23 Camomile Street, London, EC3A 7LL
www.theia.org

IA Sustainability and Responsible Investment
@InvAssoc @The Investment Association

1. Introduction

UK at a Critical Juncture for a Sustainable Future

The UK is at a critical juncture on a journey to honour its commitments to bring about net zero greenhouse gas emissions by 2050 ("Net Zero") and to achieve the Paris Agreement[1] goals this century. The UK's 2050 Net Zero target is one of the most ambitious in the world and the UK government must continue to display global leadership and galvanise other countries to do the same.

This year, we have witnessed a global pandemic bring devastation to communities across the world, disrupt businesses and the nature of social interaction on an unprecedented scale, and bring certain sectors to their knees. With the UK government now considering how best to trigger a green and sustainable recovery, we are facing a once-in-a-generation opportunity to set out a blueprint for the long-term growth of the UK economy. Action towards Net Zero emissions and limiting the damage from climate change must be at the heart of that long-term recovery and growth.

Climate change is disproportionately impacting the poorest within society, and the pandemic has served as a further driver of inequality, with certain groups having been more heavily impacted than others – typically those with lower earning jobs. As an industry we are aware that social inequality hampers sustainable growth. It is important that our actions to manage the climate crisis do not further exacerbate inequality; we must facilitate a transition to Net Zero emissions ("Transition") that impacts society fairly ("Just Transition").

There is undoubtedly growing awareness from society at large of the need to take action on environmental issues, including climate change. This has been borne out in support for campaigns against the use of plastic; in trends for consumption with a lower carbon footprint (for example meat substitutes); and it is also reflected in investor demand for sustainable investing.[2] Our industry's clients and savers are indeed demanding more information and choice as they seek, in increasing numbers, to contribute to climate action through their investment decisions.

Now is the time therefore to build a more resilient and sustainable global financial system, and the UK finds itself in a position of international leadership to deliver this step change.

The UK investment management industry supports the clear message set out by the Committee on Climate Change (CCC)[3] earlier this year that Ministers should seize the opportunity to turn the COVID-19 crisis into a defining moment in the fight against climate change. We do not face a choice between economic growth and climate action. Instead, this is a choice for long-term, resilient economic growth that takes account of the risks and opportunities posed by climate change to the financial system as a whole. Leading economists from across the world have surveyed academics and senior G20 finance ministry

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[1] Report of the Conference of the Parties on its twenty-first session, held in Paris from 30 November to 11 December 2015 ("Paris Agreement")

[2] According to IA monthly data on funds under management (FUM), savers invested four times as much in responsible investments in the first half of 2020 than they did in the first half of 2019.

[3] The Committee on Climate Change (CCC) is an independent, statutory body established under the Climate Change Act 2008. Its purpose is to "advise the UK and devolved governments on emissions targets and to report to Parliament on progress made in reducing greenhouse gas emissions and preparing for and adapting to the impacts of climate change."

and central bank officials on a range of economic recovery policies and found that those policies deemed to have the greatest long-term economic impact were also those that take action against climate change.[4]

As the UK takes its first steps as a jurisdiction outside the European Union, we have a major opportunity to demonstrate global leadership in acting decisively to meet the Paris Agreement. Hosting the G7 in 2021 provides the UK with an opportunity to rally many of the world's most influential economies to commit to decisive action on climate change. Also in 2021, as we host the postponed 26th session of the Conference of the Parties (COP 26), all eyes will be on the UK to demonstrate how our actions are instrumental in keeping the global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and in pursuing efforts to limit the temperature increase even further to 1.5 degrees Celsius. Using our position as a global sustainable finance leader to bring other countries along with us is also central to ensuring UK competitiveness in a more sustainable world.

The Role of Investment Managers in bringing about the Transition to a Sustainable Future

The investment management industry is a global force, which – through its actions as long-term stewards of clients' assets – is on a journey to support delivery of the Paris Agreement goals.

Our clients are individual retail savers and institutional asset owners such as pension funds, insurers, charities and governments. Their investment objectives are typically financial, for instance having enough money to live on in retirement or meeting their liabilities, but can also include non-financial elements, such as to invest in companies or projects that have a specific social or environmental benefit or that "do no harm".

Investment managers have a responsibility to act in the best interests of clients and a major part of this is the generation of long-term returns. This requires the consideration of material risks, which include climate-related risks, in investment processes. Climate change is one of the greatest systemic risks that we are now facing – our efforts to address climate risk are therefore among the most important actions the industry can take to act in the best interests of our clients.

With increasing numbers of clients asking for both information on climate change and for products to deliver on their particular investment goals, including reflecting their attitudes towards climate change, investment managers are increasingly innovating to fulfil their clients' needs. This is another important facet of acting in the best interests of clients. The development of new products is being accompanied by intensive efforts to provide clients with the necessary information to make informed decisions as to whether their savings are aligned with their sustainability preferences and goals.

We can also support asset owners to manage the risks from climate change and put in place arrangements intended to give effect to transition plans aligned to the Paris Agreement.

[4] Hepburn, C.; O'Callaghan, B.; Stern, N.; Stiglitz, J.; Zenghelis, D. (2020) 'Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?' *Oxford Review of Economic Policy*, *GRAA015*. 8 May. Available at: graa015, https://doi.org/10.1093/oxrep/graa015

Finally, as businesses and employers, we can look at our own corporate operations and work towards carbon neutrality.

There are myriad challenges to industry playing its role fully in bringing about the Transition. A significant challenge is obtaining quality data from investments; the investment management industry needs meaningful, consistent and comparable information across all asset classes to make well-informed investment decisions and to be able to trust the data that we in turn publish. We must recognise that investment management firms are therefore on a journey to develop more sustainable business practices and to ensure that all material risks are fully incorporated into their investment processes. Investment management firms embedding sustainability considerations across the breadth of their businesses is a work-in-progress, and one that involves coordination with relevant stakeholders.

Industry working alongside UK government to bring about the Transition

We welcome the global leadership already demonstrated by the UK government, with its ratification of the Paris Agreement goals and commitment to Transition making the UK the first major economy in the world to legislate its commitment to Net Zero by 2050. This builds on a longer history of action including passing the Climate Change Act of 2008.

Clear and actionable signals from UK government on the nature and speed of the Transition now will allow investment managers to price this into their investment processes effectively, including opening up new investable opportunities, as well as allow them to support investee companies and infrastructure projects, among other investments, to make the Transition. By taking this kind of action, UK government can help private sector to channel more capital into investments for climate solutions, in turn, ensuring private sector can help fill the gap between what is affordable by UK government and the significant step up in investments required.

As long-term investors, we seek to channel capital on behalf of our clients to companies that are deemed likely to generate sustainable long-term value. To achieve this, we consider material risks and opportunities to the long-term value of our clients' investments and make judgements about the relative level of risk and return that is needed to achieve their investment goals. Accurate disclosure by investee companies of data relating to their management of material risk factors (which may include social risks, governance-related, climate-related or pertaining to any other form of environmental risk) helps investors to assess materiality and manage the risks arising from climate change in our investment processes.

The UK government has already signalled to issuers (and large asset owners) its expectations that these institutions start publishing reports in 2022 that are in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We welcomed the FCA's consultation paper CP20/3 which proposed all commercial companies with a UK premium listing report in line with TCFD and have asked that the FCA go further and make reporting mandatory for premium listed commercial issuers and introduce comply or explain reporting for standard issuers. We also welcome the roadmap published by the cross-government TCFD steering group to ensure that a wide range of financial participants report in line with TCFD by 2025 if not sooner. This complements our expectation, set out earlier this year, that all listed companies should report in line with TCFD by 2022.

As an industry, we stand ready to play our part as long-term investors, seeking to deliver sustainable long-term returns for asset owners, and to support the UK government in taking the necessary policy steps to make this transition possible.

2. Existing Work to Support a Sustainable Transition

Investors as Stewards

To maximise value for clients, investment managers oversee and manage the assets they invest in to encourage, develop and support sustainable business performance that will lead to long-term returns for savers.

Collectively, this work of allocating, overseeing and managing capital falls under the umbrella of "stewardship"[5]. Effective stewardship helps generate sustainable value for savers and leads to benefits for society, the environment and the economy.

In terms of capital allocation, investment managers assess which investments are best placed to create sustainable value in a decarbonising economy as well as which assets will support adaptation to, and mitigation of, the worst impacts of climate change.

Asset owners are also increasingly developing their approach to strategic asset allocation to ensure their investment approach manages the risks and makes the most of opportunities relating to climate change.

The relationship between asset owners and investment managers is fundamental to driving effective stewardship and a long-term approach to investment. The IA and PLSA are setting up a joint steering group to address how the relationship between asset owners and investment managers can be governed in a way that promotes a long-term focus and aligns stewardship expectations. It will aim to give clarity on how a long-term focus can be achieved. Amongst other indicators of long-term value such as effective stewardship and ESG integration, the project will also consider how the relationship between asset owners and investment relationship can be governed to address long-term systemic risks such as climate change.

Alongside capital allocation, investment managers also fulfil management and oversight responsibilities. This involves engaging with the companies, in which they invest on behalf of clients, and supporting these companies in their efforts to manage the physical and transition risks from climate change, make the most of opportunities, and transition to a more sustainable footing. Our members hold approximately a third of the value of UK PLC and make use of the rights and responsibilities of share ownership to support companies to make the Transition. This involves setting expectations, engaging with board and senior management, voting at company annual general meetings (AGMs) and escalating engagement where necessary (for example through the use of requisitioned resolutions).

Best practice in stewardship involves not just promoting the integrity and sustainable value of individual assets, but also promoting the integrity of the market as a whole, as the long-term value of investments is tied to the resilience and strength of the wider economy.

[5] According to the Financial Reporting Council (FRC) 2020 Stewardship Code, Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Effective stewardship therefore involves engaging with regulators, policy makers and other actors to promote sustainable growth across the economy.

The UK's 2020 Stewardship Code sets a world-leading and ambitious standard for stewardship, through principles that outline the key behaviours of an effective steward. This includes expectations for how the risks posed by climate change are integrated into investment processes and investors' response to systemic risk. Indeed, the UK has long led the development of effective use of industry codes to encourage responsible corporate behaviour from as early as 1992 and initiatives like the "Cadbury Code". Today, industry-led initiatives, including those at a global level, such as Climate Action 100+, continue to raise the collective voice on climate-related issues.

Task Force on Climate-Related Financial Disclosures (TCFD)

Clear Expectations of Investee Companies

The disclosures made by companies on how they are managing climate change risks help investors make informed investment decisions and identify where further action is needed to support and challenge companies to transition to Net Zero. Quality disclosures will support more accurate asset valuations reflecting exposures to climate risk and, in turn, contribute to financial stability.

Reporting in line with the Task Force on Climate-Related Financial Disclosures (TCFD) provides a key mechanism through which investment managers can enhance their understanding of how companies are managing climate-related risks and seizing opportunities.

In January 2020, the IA set out the industry's expectation that FTSE-listed companies should explain in their annual report the impact climate change will have on their business model and how these risks are being measured and managed. These disclosures should be the result of meaningful action by companies to address the impact of climate change on their business model and strategy. This will provide essential evidence of how well companies are responding to climate change, and whether they are adapting their strategy to ensure the long-term viability of their businesses.

IVIS, the IA's Institutional Voting Information Service, is tracking companies' progress, with investment managers wanting to see significant movement towards reporting in line with the TCFD recommendations by 2022 and companies explaining better to investors how they will adapt and strengthen their business model in response to climate risks. We have reviewed progress from this year's AGM season and highlighted areas that need improvement. While the number of FTSE 100 companies stating that they are implementing the TCFD framework has more than doubled on last year (77 companies in 2020 compared to 30 in 2019), only 53% of companies have reported all four pillars of TCFD (governance, strategy, risk management and metrics and targets). And while almost three quarters of FTSE 100 companies discussed the impact of climate change on their strategy, only 55% have made specific reference to how this impacted their approach to capital management and allocation. We will set out shareholder priorities for the 2021 AGM season in the Autumn, and will be expecting companies to improve their reporting to set out the impact of climate change on their strategy and capital allocation decisions.

IA Commitment 1: Engagement with investee companies on climate-related disclosures

We commit to helping our members to continue to engage with listed companies to improve the quality of their climate-related disclosures and to support companies to make an orderly Transition.

Greater transparency is needed across the financial system to enable all stakeholders, including investment managers, to assess the impact that individual companies have on climate change and how they are responding to UK government ambitions for the UK to be Net Zero by 2050. Large private companies will also need to play a key role in this agenda and to support the broader efforts and understanding around the management of climate risk and delivery of solutions.

IA Ask 1: <u>TCFD reporting by large private companies</u>
Large private companies[6] should be required to report in line with TCFD and the UK government should amend company law to require all large UK incorporated companies (public and private) to report in line with TCFD.

Following the announcement of UK's Joint Government-Regulator TCFD Taskforce Roadmap towards mandatory climate-related disclosures, the IA will contribute to the debate through the proposed BEIS consultation on the appropriate scope of private companies for this reporting requirement. A key issue to be addressed will be the requirements on subsidiaries to report given they will also feed into group level reporting, but also noting that some subsidiary companies seek capital from institutional investors through bond issues or direct investment.

Supporting Asset Owners
We will continue to work closely with asset owners, including supporting efforts to articulate clearly how investment managers manage the impacts of climate change on their investments. This helps asset owners assess whether investment managers' approaches are helping them to meet their defined investment goals and to hold investment managers to account. Moreover, this also supports asset owners in making their own TCFD disclosures.

Amongst other asset owners, pension funds set the tone for the responsible allocation of capital across the investment chain. Strong signals from pension funds, accompanied by robust TCFD disclosures from companies, support investment managers to manage material climate risks on behalf of clients. We recently responded to the DWP consultation on "Taking action on climate risk: improving governance and reporting by occupational pension schemes" and are looking forward to working with DWP, the FCA, BEIS and other government departments to ensure the coherence of the information flows between investee companies, investment managers and asset owners when finalising its expectations of pension funds.

IA Commitment 2: <u>Working with pension fund clients to help them meet their climate-related disclosure requirements</u>

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[6] A large private company is currently defined according to the thresholds set out by the UK Department for Business, Energy and Industrial Strategy (BEIS) in their recent corporate governance reforms and denotes those companies that are asked to report against a corporate governance code such as the Wates Principles. Private companies that have (i) more than 2,000 employees and/ or (ii) have a turnover of more than £200 million and a balance sheet total of more than £2 billion must produce a statement of corporate governance arrangements in their directors' report in their annual accounts.

> IA members commit to working with their pension fund clients to help them meet their own climate-related disclosure requirements. This includes helping them find solutions to issues on data quality and consistency, including in relation to standardisation efforts and accessibility of data and information.

Developing Investment Managers' own Disclosures

Further to our work with investee companies and supporting asset owners, we are also supporting the development of the investment management industry's own disclosures.

> **IA Commitment 3: <u>Development of Investment managers' TCFD disclosures</u>**
> The IA will support its members to develop a full set of TCFD disclosures at entity level in the 2021/22 reporting round.[7]

Whilst this industry-wide commitment is at entity level at this stage, we are also taking forward work to support firms in making sustainability-related disclosures on a product level. The purpose of such disclosures is to communicate clear and decision-useful information to clients. At present, there are significant data gaps – particularly for certain asset classes – in relation to the production of TCFD disclosures at product level. Increased transparency of climate-related risks and emissions data from investee companies is necessary for investment managers to make their own TCFD disclosures, including beginning to build a portfolio-level overview of climate risk.

The IA is supporting members to overcome the hurdles towards product-level TCFD disclosures, as well as helping them to develop disclosures that are most useful for their clients at present. This includes supporting the implementation of forthcoming disclosure requirements under the EU Sustainable Finance Disclosure Regulation (SFDR) and working towards the development of disclosures on Net Zero alignment. We also look forward to engaging with the FCA's forthcoming consultation on client-focused TCFD-aligned disclosures for investment managers and contract-based pension schemes, expected in the first half of 2021, and building on the DWP's aforementioned proposals on climate-related financial disclosures for pension funds.

Empowering Investors to make Informed Choices

Investment managers have a duty to act in the best interests of their clients. As set out above, a key part of this is to identify and manage material risks and opportunities to clients' investments to generate long-term returns. Another aspect of carrying out this duty is to meet our clients' particular investment goals, including any sustainability preferences they may have. For example, some asset owner clients may wish to put their money into investments that are aiding the delivery of one or more of the United Nations Sustainable Development Goals.

Innovative approaches to product design and development are necessary to deliver on clients' particular sustainable investment goals. Our members are committing significant time and resource to the development of new sustainable products. In 2019, we saw

[7] To allow requisite flexibility for different reporting periods, this commitment encompasses reporting periods from the start of 2021 (reporting in 2022) to the end of 2022 (reporting in 2023).

significant growth in the number of sustainable funds launched[8] as well as strong demand for green bonds.[9]

At the same time as developing such products, the investment management industry recognises that it is vital to communicate clearly the responsible and sustainable investment characteristics of the products it offers in order to empower end investors to make informed choices over asset allocation and fund selection.

Extensive work on disclosure is already underway within the investment management industry both to implement significant regulatory changes in a robust and meaningful way as well as proactive work to improve the consistency and clarity of industry's sustainability-related disclosures. At the end of last year, the IA published its Responsible Investment Framework to explain to all audiences in a consistent way how investment managers contribute to sustainability through different responsible investment approaches.[10] Improving the clarity and consistency with which we communicate to all audiences remains a key priority of the investment management industry.

It is crucial we continue to improve the disclosure of sustainability-related information in a way that is clear and decision-useful to clients to help inform their choices and meet their preferences.

IA Commitment 4: Support improvement of sustainability-related disclosures at fund-level

The IA is committed to supporting its members to improve their sustainability-related disclosures at fund level, finding the best way forward for clients at present, considering the practical implications of providing disclosures that are decision-useful to investors, and based on robust investment data:

- First, we are developing best practice guidance on how firms should communicate the responsible investment characteristics of products to investors to help investors make better informed sustainable investment, decisions building on the terms set out in the IA Responsible Investment Framework.
- Second, we are supporting members with the practical implementation of forthcoming regulatory requirements, with a particular focus on the EU Sustainable Finance Disclosure Regulation (SFDR). This also includes engaging with UK authorities on the future of sustainable finance rules in the UK.
- Third, we are helping our members to develop TCFD disclosures at a portfolio level, including supporting them to overcome current obstacles, in particular, the current lack of data and data quality.

Disclosing Paris-Alignment of Portfolios

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[8] According to Morningstar data, in 2019 European sustainable funds held €668 billion of assets, which was up 58% from 2018. According to the same report, 2019 saw the launch of 360 sustainable funds, which brought the total number across Europe to 2,405. The report goes on to say that approximately 50 of the sustainable funds launched in 2019 had a specific climate-oriented mandate. Source.

[9] According to a report from BloombergNEF, Green bonds, "constituting more than half of the entire sustainable debt market in 2019, saw $271 billion issued – up from $182 billion in 2018." Source.

[10] IA Responsible Investment Framework Final Report

Part of the industry's work to empower investors to make informed choices is to work towards disclosing the extent to which portfolios are aligned to the delivery of the Paris Agreement (being "Paris-aligned"). By disclosing such assessments, institutional asset owners can make informed decisions over the need to become more or less Paris-aligned; and retail investors can similarly use this to choose products more suited to their needs. Significant steps have already been taken by a number of industry initiatives to develop such methodologies, but further work is needed to ensure such disclosures are meaningful, accessible and comparable, as well as their input data robust.

IA Commitment 5: Link with advanced initiatives to support Disclosure of Paris-Alignment of Portfolios

The IA is convening representatives of initiatives that have progressed work on Paris-alignment methodologies to date in order to identify where industry can learn from, build on and develop work already undertaken. For example, on 14 July 2020, the IA held a session with representatives from the joint FCA-PRA Climate Financial Risk Forum (CFRF) and the Institutional Investors Group on Climate Change (IIGCC) to understand progress to date and identify opportunity for further work. The IA continues to engage with such groups to express industry views, including in response to the IIGCC's consultation on its Net Zero Investment Framework.[11] We will be taking this work forward into 2021.

The IIGCC's Net Zero Framework – being consulted on at time of writing – sets out a consistent approach for assessing portfolio alignment to the delivery of a global Net Zero goal. Predominantly aimed at asset owners, the framework's consultation also states that investment managers can "adopt the long-term objective of aligning assets under management and investment strategies to the goal of achieving global net zero emissions by 2050".[12] The framework itself consists of multiple layers, namely: governance and strategy; portfolio reference targets; strategic asset allocation; asset class alignment; policy advocacy; and stakeholder and market engagement.[13]

Sharing Knowledge and Expertise

As the trade body for UK investment managers with a membership of over 250 firms who collectively manage £8.5 trillion, we are using this significant convening power to share knowledge and expertise with the full IA membership to help expand capacity within firms to understand and manage physical and transition risks. This includes helping to build coalitions of financial institutions to progress Net Zero alignment, together with measurement and disclosure of that progress.

IA Commitment 6: Supporting the FCA-PRA Climate Financial Risk Forum work

The IA continues to actively support the work of the joint FCA-PRA Climate Financial Risk Forum (CFRF) and is committed to sharing knowledge from the CFRF Handbook through our membership and building on its work to date.

3. Going Forward Together

[11] IIGCC Net Zero Investment Framework Consultation.
[12] IIGCC Net Zero Investment Framework Consultation, p.36.
[13] IIGCC Net Zero Investment Framework Consultation, p.9.

A number of collaborative initiatives to address the impact of climate change are already underway, bringing together UK government and industry. In particular, we welcome the HM Treasury-led Asset Management Taskforce, chaired by Economic Secretary to the Treasury, John Glen MP. We are also working closely with UK government's dedicated COP 26 team ahead of the Summit next year, including convening a high-level roundtable with Mark Carney and senior industry representatives to discuss the Private Finance Strategy.

The investment management industry welcomes the opportunity to work even more closely with UK government into next year, to help bring about the requisite policy actions to progress the transition to a sustainable future.

UK Policy Action to achieve Net Zero and set a Global Example

Action is needed in the next decade in order to minimise risks and ensure alignment with the Paris Agreement. We ask that the UK use its privileged position as a leader in sustainable finance and stewardship, and as host of the upcoming COP 26, to drive forward change in the UK as well as to galvanise change in other countries.

Action today helps minimise financial stability risks arising from stranded assets and cliff-edge policy decisions at a future date. Clear policy signalling from UK government gives companies clarity about their own transition risks, enabling them to improve their reporting on them and adapt their business models accordingly. This in turn helps investment managers engage with these companies more effectively to help support them in making the capital allocation decisions necessary to transition to Net Zero. This policy signalling also provides the requisite clarity to allow investment managers to price assets effectively for the long-term benefit of their clients.

Investment managers invest in different sectors. Each of these sectors will face different challenges and have different drivers and constraints shaping their path to transition to Net Zero and their contribution to meeting the Paris Agreement goals. To drive forward change and set an example in the UK, UK government should seek to set out its plans for policy interventions specific to each sector as soon as it is able. Typically referred to as "sector-specific pathways to transition", there are different policy options available to meet Net Zero and the Paris Agreement goals. These different options will impact on the pricing of assets and include tax, regulation, innovation and leveraging private sector finance.

By setting out clear pathways to transition to Net Zero for different sectors of the economy, UK government can help create the investable opportunities for private capital.

IA Commitment 7: Support creation of investable opportunities
We are committed to working together with UK government to create the investable opportunities necessary for the Transition.

IA Ask 2: Green gilts
We welcome UK government's announcement that it will issue its first sovereign green bond in 2021, subject to market conditions. We ask that the Government make good on this intention and stand ready to assist to help see this plan to fruition. The issuing of a sovereign instrument that attracts private sector capital into green recovery and growth will be an important signal and, crucially, will demonstrate the UK government's commitment to its 2050 net zero target, clean growth and a green economy.

Drawing on Existing Expert Research for Sector-Specific Pathways to Transition

The Committee on Climate Change's (CCC) Net Zero Report of May 2019 sets out specific policies that are required to address "key areas of emissions across the [UK] economy". According to the CCC, these policy interventions are a "pre-condition" of achieving Net Zero by 2050.[14]

> **IA Ask 3: UK government to facilitate sector-specific pathways to transition**
> We ask to work together with UK government to ensure the requisite policy interventions are brought in to facilitate the transition to Net Zero for different sectors.

Please find below a list of recommended actions that industry puts forward as a matter of priority, drawing on the recommendations from the May 2019 CCC Report. We look forward to working closely with UK government on these recommendations, including in the context of the outputs of UK government's Net Zero Review.

Heating and cooling buildings
UK government should continue to develop the nationwide insulation programme to lead to a full decarbonisation of buildings by 2050. In this context, we would also draw the government's attention to the importance of the work of the Green Finance Institute's Coalition for the Energy Efficiency of Buildings (CEEB). Their report from May 2020 sets out financial solutions to scale up retrofitting of buildings.[15] Moreover, current new build regulations and industry standards should be improved to align with Net Zero.

Carbon capture and storage (CCS)[16]
UK government should take a lead on infrastructure development, with long-term contracts to reward carbon capture plants and encourage investment.

Electric vehicles
UK government must continue to support strengthening of the charging infrastructure, including for drivers without access to off-street parking.

By 2035 at the latest, all new cars and vans should be electric (or use a low carbon alternative such as hydrogen).

Low-carbon power
We must continue to expand rapidly the supply of low-carbon power.

Despite existing successes to date with, for example, wind power, UK government intervention may still be needed, for example, by backing long-term contracts aligned to expected wholesale prices.

Policy and regulatory frameworks should also encourage flexibility (e.g. demand response, storage and interconnection).

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[14] Committee on Climate Change Net Zero Report, May 2019, pp. 34-35.
[15] GFI Report on Financing Energy Efficient Buildings
[16] Sometimes grouped as Carbon Capture, Use and Storage (CCUS) UN Framework Convention on Climate Change

Land use
Forest cover should increase from 13% of UK land to at least 17% by 2050. With the UK having one of the lowest forest cover percentages in Europe, we would encourage the UK to be even more ambitious in its targets. Policy must also support land managers with skills, training and information.

Heavy Goods Vehicles (HGVs)
Vehicle and fuel taxation from the 2020s onwards should be designed to incentivise commercial operators to purchase and operate zero-emission HGVs.

Removal of Fossil Fuel Subsidies
Finally, we would urge the UK government to use its G7 presidency to renew the commitment to phase out fossil fuel subsidies. Removal of subsidies to the oil sector is vital, in particular, for export financing. Initiatives like the Overseas Development Institute (ODI) G7 fossil fuel subsidy scorecard can provide a helpful tool to track progress.[17]

4. Final Remarks

Only together, with all stakeholders playing their part, can we transition to a sustainable future.

We must now take further action to consolidate the world-leading policy signalling that we have seen from the UK government to bring about the policy interventions that are needed to make practical steps to Net Zero and a Paris-aligned future.

As investment managers, we honour our commitment to act in the best interests of clients by delivering innovative solutions to meet clients' sustainability preferences as well as identifying and managing material risks to our clients' investments, and climate change is one of the single biggest systemic risks facing us today.

This position paper sets out how investment managers are on a journey to fulfil their role in bringing about the Transition.

Against this backdrop, the agreed commitments and asks that are set out in this paper are intended to set out a blueprint for targeted action over the next 12 months in the run up to COP 26. Specifically, industry will play its role by:

1. **Continuing to embed climate-related financial risks into investment processes and making full use of our rights and responsibilities as stewards of our clients' assets to support and challenge the companies in which we invest as they transition to Net Zero** *(Commitment to support engagement with investee companies on climate-related disclosures; to develop our own industry TCFD disclosures; to work with asset owners to support their TCFD disclosures);*

2. **Improving transparency on the sustainability credentials of investment products to empower investors to make better informed decisions based on their own sustainability preferences** *(Commitment to develop best practice guidance on responsible investment characteristics of funds, support implementation of incoming*

[17] Overseas Development Institute (ODI) Fossil Fuel Score Card

regulatory requirements, support development of TCFD disclosures at product level; and link to initiatives that support Disclosure of Paris-Alignment of Portfolios);

3. **Supporting the development of best practice, sharing knowledge and expertise** *(explicit support for the work of the FCA-PRA Climate Financial Risk Forum);*

4. **Helping UK government (1) to develop investable opportunities to transition to Net Zero, through the identification and implementation of sector-specific pathways to Transition; and (2) to further explore the issuance of green gilts.**

We welcome the opportunity to work even more closely with UK government on action intended to accelerate change, bringing to bear the investment industry's collective experience, and bolstering the UK's position as a global leader in sustainable finance.