

SESSION NOTE

Breakout 1. Dialogue with asset managers and owners on climate disclosure

25 October 2017 – 10:50 – 12:00

This session will discuss the actions that need to be taken to overcome barriers at the micro level to mainstream climate disclosure in portfolio asset allocation and risk management of institutional investors and asset managers, whether driven by shareholder resolutions or by government regulations. It will notably discuss how asset owners and managers will encourage corporate climate disclosures. The session will also discuss how best to mainstream broader ESG (environmental, social and governance) factors, including climate change, in management and strategies of asset owners and managers, drawing on relevant OECD work.

Since 2015, the Paris Agreement, the Sustainable Development Goals, emerging national regulations and other high-level initiatives have been rapidly re-defining corporate climate change-related reporting obligations and practices. There is a growing demand for institutional investors (i.e. asset owners, including pension funds and insurance companies) and asset managers to integrate climate change and other ESG factors in their investment decisions and asset management practices, especially through enhanced transparency and disclosure of information on climate change.

This session will build on recommendations from high-level initiatives recently launched to mobilise the financial sector in support of the Sustainable Development Goals and the Paris Agreement. These initiatives have led to various sets of recommendations relevant to climate change disclosure:

- In June 2017, the industry-led Task Force on Climate-related financial disclosures (TCFD), which was created in 2015 by the Financial Stability Board (FSB), released its final recommendations to encourage climate disclosure from financial institutions, to ensure appropriate pricing of risk and support informed efficient capital-allocation. The TCFD recommendations on climate-related financial disclosures are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets. The four overarching recommendations are supported by recommended disclosures and guidance, to support all organisations in developing climate-related financial disclosures. The TCFD has provided information using scenario analysis as a tool to assess potential implications of climate-related risks and opportunities. These recommendations have been endorsed by an increasing number of countries (e.g. the UK in September 2017) and non-state actors.
- In July 2017, the EU High-Level Expert Group (HLEG) on Sustainable Finance, created in 2016, published an interim report, which recommends integrating sustainability into the EU's regulatory and financial policy framework. The HLEG stressed the importance of supporting the disclosure of information on performance, position, risks opportunities and impact, as well as appropriate metrics of sustainability. The HLEG recommended that the EU implement the TCFD framework, including reviewing the EU non-financial reporting directive to encourage ESG disclosure from financial institutions.

An increasing number of institutional investors are taking voluntary measures to enhance climate disclosure. For instance the Swedish Investment Fund Association announced in 2016 requirements for asset managers to provide a “sustainability overview” to disclose the climate impact of their investments under its code of conduct, which the industry uses to self-regulate.

Governments are also increasingly scrutinising private sector activity through voluntary or mandatory disclosure schemes and requirements to elicit information necessary for addressing climate change risks and taking appropriate decisions. As highlighted by the OECD-CDSB report on "Climate Change Disclosure in G20 Countries: Stocktaking of corporate reporting schemes", the current landscape of corporate climate-change related disclosure is increasingly filled with initiatives introduced by governments and others over more than a decade. At least 15 G20 countries have some type of corporate climate reporting scheme. These schemes share some characteristics, but also have fundamental differences. Whilst schemes individually contribute to the evolution of climate change-related reporting, collectively they present a fragmented and confused landscape. This in turn reduces the usefulness of information for decision-makers, including investors and other financial market participants. This session will also consider emerging country-specific regulations and initiatives that target institutional investors, led by governments or institutional investors including:

- Article 173-VI of France’s Law on Energy Transition for Green Growth (LTECV) (and its implementing decree), which came into force on 1 January 2016 and strengthened mandatory carbon disclosure requirements for listed companies and introduced carbon reporting for institutional investors (including asset owners and investment managers). Using a comply-or-explain mechanism, it requires investors to report on how they integrate ESG into their investment processes, outline the greenhouse gas (GHG) emissions of their investments, and explain how their assets contribute to the financing of a low carbon economy.
- In September 2017, France's Finance Ministry official backed the idea to adopt an EU-wide version of Article 173 on ESG and environmental reporting.
- The UK Green Finance Task Force, hosted by UK Department for Business, Energy and Industrial Strategy (BEIS) and HM Treasury (HMT) in September 2017.
- In collaboration with 2° Investing Initiative, Switzerland Federal Office for the Environment (FOEN) has undertaken a “Climate compatibility pilot project”, a voluntary evaluation of pension fund and insurance company disclosure of assets, whose preliminary results were presented in Sept-Oct 2017. Andrea Burkhardt, Head of Climate Division, Federal Office for the Environment, Switzerland, is scheduled to speak in the preceding Forum's session at 9am.

The OECD welcomes the efforts of the TCFD and HLEG to develop relevant policy recommendations. The OECD has submitted written comments to the EU public consultation on the draft recommendations of the HLEG interim report on sustainable finance. In particular, the OECD encouraged the HLEG, in possible co-operation with the OECD, to encourage analysis of the current landscape on corporate disclosure requirements, including on challenges for providers and users to ensure disclosures are adequate for decision-making; and on the role of policy makers to promote enhanced disclosure. The OECD has developed other relevant work on climate disclosure for institutional investors, including:

- The OECD report *Investment governance and the integration of environmental, social and governance factors* (2017), which identifies addressing practical barriers to ESG as a key priority, and calls on providing further analysis of the practical obstacles to integrating climate change and other ESG factors in the context of fiduciary duty and investor obligations more generally.

- The report *Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises*, which helps institutional investors implement the due diligence recommendations of the OECD Guidelines for Multinational Enterprises, in order to prevent or address adverse impacts related to human and labour rights, the environment, and corruption in their investment portfolios. The OECD Guidelines are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. The Guidelines are the only multilaterally agreed and comprehensive code of responsible business conduct that governments have committed to promoting.

This OECD session will help foster ongoing dialogue between asset managers, asset owners and regulators in the field of climate disclosure, to maintain continued global impetus on high-level initiatives around climate-related financial disclosures and sustainable finance, leveraging on the OECD's value added on green finance and investment and its Centre on Green Finance and Investment. Based on OECD's expertise and international standing as an expert organisation on green finance and investment, and drawing on relevant OECD work, the OECD is developing a new project to identify emerging practices for regulators and investors to mainstream climate change and other sustainability factors in asset management and portfolio allocation of long-term institutional investment, including through encouraging disclosure and reporting of climate-related information. The OECD is actively seeking to engage with interested asset managers and asset owners on this new project.

Useful links

- EU High-Level Expert Group on Sustainable Finance interim report: https://ec.europa.eu/info/publications/170713-sustainable-finance-report_en.
- France's Article 173's implementing decree: http://2degrees-investing.org/IMG/pdf/energy_transition_law_in_france_-_briefing_note_final.pdf.
- FSB Task Force on Climate-related Financial Disclosures (TCFD): www.fsb-tcfd.org.
- G20/OECD Principles of Corporate Governance: www.oecd.org/corporate/principles-corporate-governance.htm.
- IIGCC Global climate disclosure framework for Oil & Gas companies: www.iigcc.org/files/publication-files/Global_Climate_OG_DisclosureFramework.pdf.
- G20 Green Finance Study Group: <http://unepinquiry.org/g20greenfinancerepositoryeng>.
- OECD Centre on Green Finance and Investment: www.oecd.org/cgfi/.
- OECD Guidelines for Multinational Enterprises: www.oecd.org/corporate/mne/1922428.pdf.
- OECD (2017), Investment Governance and the Integration of ESG Factors, www.oecd.org/cgfi/Investment-Governance-Integration-ESG-Factors.pdf.
- OECD-CDSB (2015), Climate change disclosure in G20 countries: Stocktaking of corporate reporting schemes, www.oecd.org/daf/inv/mne/Report-on-Climate-change-disclosure-in-G20-countries.pdf.
- UK Green Finance Task Force: www.gov.uk/guidance/green-finance.
- SWEN's ESG Best Practices Honours: <https://www.esgbestpracticeshonours.fr/>