



FairPensions™
The campaign for responsible investment



Consultation on draft guidance for how to measure and report your greenhouse gas emissions.

Joint submission by Christian Aidⁱ, FairPensionsⁱⁱ and Oxfam.

We welcome the government's efforts to reduce UK emissions as part of the global fight on climate change. Climate change will hit poor people first and most, despite them having done least to cause the problem.

We welcome in principle the forthcoming publication of guidance on measuring and reporting GHG emissions. However, we are concerned that the draft guidance does not take the role of investors into account. Their inclusion will significantly strengthen the potential impact the guidelines could have to reduce UK emissions.

We believe the draft guidance should encourage investors to report on the emissions of the globalⁱⁱⁱ portfolio of companies in which they have shareholdings, given their power as shareholders to promote or suppress corporate efforts to measure and manage emissions. Only then will owners and corporates have aligned incentives and interests in tackling climate change. (See Appendix)

Disclosure of portfolio emissions by investors need not be an onerous requirement (especially as reporting by investee companies will be increasing under the guidelines) and there are examples of investors which already disclose such information, such as the VicSuper (one of Australia's largest pension funds) which gives its members an estimate of the emissions exposure of their personal savings pot; there are also companies which specialise in estimating and calculating emissions exposures of companies and portfolios.

We recommend that the proposed guidance should include specific recognition of the role of large institutional investors, so that their emissions as major shareholders (and their plans to manage these) are treated as information which should, as *standard practice*, be disclosed.

Specifically, we recommend that standard practice for investors should include:

- Reporting publicly on the investor's total portfolio emissions and strategy for emissions reduction.
- Reporting to clients on the emissions generated by assets held on behalf of that client, using reports from companies where they are available and estimates where they are not (e.g. for companies outside the UK which are not covered by domestic reporting guidelines).
- Reporting to clients on targets for portfolio emissions reduction and plans for achieving this (e.g. through stock selection or engagement with investee companies). Regulations should be introduced by April 2012 to make reporting of GHG emissions mandatory, (in line with the provisions of section 85 of the Climate Change Act 2008). To retain a voluntary-only approach past April 2012 creates a strong risk that apparent trends in UK emissions (and resulting policy) are distorted owing to non-reporting by laggards. Mandatory reporting would ensure that companies are better able to manage their own GHG exposure and that policymakers, consumers, investors and other stakeholders are given the information they need to make informed decisions.

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Appendix

We believe that the exclusion of investors is a major opportunity lost for the following reasons:

- Investors influence corporate emissions policies. Unfortunately some (especially among the asset management industry) operate under short-term incentive structures, leading them to adopt a perpetual wait-and-see approach that effectively suppresses corporate progress on emissions reduction.
- Investors with longer-term horizons (e.g. pension funds) have an interest in investee companies taking action now to reduce emissions in the future (in order to reduce future costs arising from developments such as rising carbon prices), and therefore have both the motivation and capacity to be a significant driver of corporate emissions reduction. However, most pension funds invest through fund management companies, which do not reveal emissions exposure or reduction plans to clients. This means that pension funds and others do not have the data necessary to assess their own exposure or the plans which their agents have to manage the damage to future value if action is not taken.
- If investors are required to calculate and report on the emissions of portfolio companies, this increases the likelihood that they will monitor and manage such emissions. Thus, it will allow them to fulfil their duties as responsible owners and preserve long-term profitability.
- There is a developing public appetite for data about the emissions we produce as consumers, and some companies now disclose products' 'carbon footprints' in response. However, our emissions as *indirect shareholders*, through pensions, savings, ISAs etc are typically very large, but not revealed to us. Again, this means that a group which could be motivated by self-interest to use its financial power to encourage change is not facilitated to do so.
- Implicit in the draft guidance is the recognition that companies should publicly report, in recognition of the impact that their emissions have upon all of us. It therefore seems consistent that those organisations with collective ownership of companies should also be publicly accountable.

Reporting by pension funds

- Investment management companies and other investors which are constituted as companies are directly covered by the Climate Change Act 2008, in that Section 85(1)(a) of the Act provides that any mandatory regulations re GHG emissions are to be made under section 416(4) of the Companies Act 2006, which gives a general power to "*make provision as to other matters that can must be disclosed in a directors' report*".
- The appropriate equivalent mechanism for (trust based) pension schemes would seem to be under the disclosure regulations – specifically, those relating to the contents of pension schemes' annual reports, currently contained in Schedule 3 to The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (SI 1996 / 1655) (currently subject to review). It might also be appropriate for pension schemes to be required to state their policy on GHG emissions in their SIPs. This could be effected by amendments to regulation 6 of The Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005 / 3378), which already provides for the statement of policy on SEE considerations. Neither of the above requires primary legislation.

Notes

ⁱ Christian Aid works with some of the world's poorest people, of all faiths and none, to tackle the causes and consequences of poverty and injustice, and to campaign for change. We work in around 50 countries with more than 650 local organisations where there is great need.

ⁱⁱ FairPensions aims to persuade UK pension funds and fund managers to adopt an effective responsible investment capability: i.e. to monitor and manage those environmental, social and corporate governance issues which have the potential to significantly affect investment returns. FairPensions' work draws on evidence that responsible investment practices not only help to safeguard investments, but also future-proof UK companies and our economy; as well as bringing environmental and social benefits. FairPensions is the operating name of Fairshare Educational Foundation, a registered charity, and is supported by a number of leading charities and trade unions, including ActionAid, CAFOD, Community, CWU, ECCR, EIRIS, GMB, NUJ, Oxfam, Traidcraft, Unison, Unite and WWF. We are also supported by almost 5,000 individuals.

ⁱⁱⁱ Reporting on investments should follow the Greenhouse Gas Protocol recommendations for scope 3 reporting – covering significant sources of emissions and reporting as fully as information allows, using third party estimates where information is unavailable.