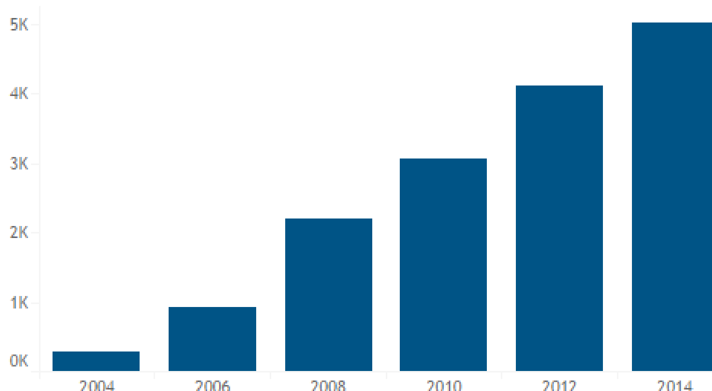
Global Counsel

Carney and Bloomberg's climate competent market

Blog post by Advisers Elizabeth Beall, Matthew Duhan and Leo Ringer, 16 December 2016

This week saw Mark Carney and Michael Bloomberg launch the second phase of the work of the G20 Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures. The report sets out a comprehensive framework to help a range of companies, from asset managers to the extractives industries, explain the potential impacts of climate change – and the efforts to tackle it – on their business. It also encourages them to set out how they are managing those processes. On Thursday, Global Counsel hosted Jane Stevensen, Task Force Engagement Director for the Carbon Disclosure Project who has spent the last year working closely with the Task Force, to discuss the implications of this landmark report.

The Task Force's exercise is officially one in addressing financial stability, and with the publication of the report, some immediately accused the FSB of stretching its mandate. They may be right, but this ignores the extent to which the Task Force was driven by its corporate members, or to use Carney and Bloomberg's phrase; "by the market for the market". What was striking around the Global Counsel table was the number of corporate and investor voices echoing the message that climate-related reporting was beginning to move "from a narrative of burden to a narrative of opportunity". Certainly there was consensus that the report was a positive step towards bringing much needed consistency and comparability among the myriad of existing voluntary guidance and frameworks on environmental and social governance. It was agreed that unless investors can compare across sectors and markets, there will be no 'winners' and 'losers' and few incentives to raise performance.



But there was also realism, and acknowledgement that those around the table were somewhat self-selecting advocates for the scheme. Understanding climate-related risk and building climate change scenarios are new areas for many companies, and many of those in the target audience – asset owners, asset managers, insurance companies – will have little experience or capacity in this area. Jane highlighted “normalisation” of climate-related financial disclosure as a key goal of the Task Force. To achieve this means building ‘climate competence’ internally, from strategy teams up to board level. This will be a major challenge in corporate governance in the next cycle. Most of our attendees agreed that in making the case for this – both internally and externally – it was important to establish and highlight examples of where climate-related reporting showed significant benefits. The emerging ‘race to the top’ in the insurance industry as companies competed to establish a climate-conscious brand, was cited as one early example.

Ultimately, the mood in the room was one of cautious optimism. Critiques of yet another voluntary scheme in a period in which action to tackle climate change is urgently needed were well made. But it was also recognised that many companies are already analysing climate risk and opportunity for their business internally, and that this global standard may be an important step in going the final mile of publicly reporting their conclusions. There is risk there and many boards will understandably be wary. Political support and pressure will be key, and in the age of Trump there are big question marks over where this will come from. For that, we look to June’s meeting of the G20 finance ministers in Germany. Whatever the case, climate-related financial disclosure is now firmly on the governance agenda. Experience with new EU requirements on ESG reporting which have taken years to make it onto the formal rule book suggests that this is the first step on a much longer road.

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