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Financial Conduct Authority
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Consultation paper CP24/12: Consultation on the new Public Offers and Admission to Trading Regulations regime (POATRs)

We welcome the opportunity to respond to Consultation Paper Consultation paper CP24/12: Consultation on the new Public Offers and Admission to Trading Regulations regime (POATRs).

Brunel Pension Partnership is one of eight UK Local Government Pension Scheme (LGPS) pools, bringing together circa £35 billion investments of 10 likeminded pension funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire.

Our aim is to forge better futures by investing for a world worth living in. We do this by making long-term, sustainable investments on behalf of our clients. By using our collective expertise, we seek to set an example for the industry, and to use our voice to argue for broader change. We are proud to be a recognised leader in Responsible Investment, and a driving force behind structural change in the financial industry.

The consultation paper set out proposed rules for companies seeking to admit securities to a UK regulated market or 'primary' multilateral trading facility (MTF) under the new POATR framework. In summary, Brunel is supportive of enhanced guidance and requirements from the FCA that enable market participants to access high quality information and address information gaps relating to climate related disclosures.

Brunel, like many other asset owners and managers, has set net zero targets and pathway to achieve them across investments. It, therefore, becomes critical for us to examine how fossil fuel exposure can impact on the remaining carbon budget and the long-term climate risks that it presents, particularly given IEA's warning that further expansion of oil and gas will need to be seriously curtailed in order to meet the goals of the Paris Agreement[1]. We, therefore, particularly highlight in our response, the need for an atmospheric viability test within the Competent Person's Regime, for assessing the future financial viability of fossil fuel-based reserves such as coal, oil, and gas, given substantial benefits for investors in seeing forward looking information that will support better risk management and fulfilment of fiduciary duty.

We would strongly urge the FCA to ensure the UK Market rules support the climate commitments made by the UK Government, businesses and financial institutions in seeking to deliver the objectives of the Paris Agreement. We emphasise the principal purpose of the agreement to limit warming of the earth's atmosphere and thereby the consequential physical changes which will cause catastrophic socio-economic impacts to the extent of making redundant the role of the FCA to protect and enhance the integrity of the UK financial system.

We remain available for further dialogue. Please contact myself, or Vaishnavi Ravishankar at ri.brunel@brunelpp.org.

Regards,

Faith Ward
Chief Responsible Investment Officer
Brunel Pension Partnership

[1] Fossil fuels – coal, oil and gas – are by far the largest contributor to global climate change, accounting for over 75 per cent of global greenhouse gas emissions and nearly 90 per cent of all carbon dioxide emissions (United Nations, UNFCCC).

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Detailed response to selected questions

Q31. Do you agree with the proposed climate disclosure rule to prompt relevant and financially material information to be included in prospectuses? Y/N. Please give your reasons. If not, what should be done differently?

We are supportive of the FCA's proposal to require sustainability related disclosures at the point of listing. We would recommend, however, that:

- Companies in scope should always provide an explanation if they don't comply with the requirements. Climate change is systemic and impacts all companies. It would create concern if companies deemed it as an issue that is not material and failed to provide an explanation for not complying with the standard.

- FCA must ensure that the "standard" itself is fit for purpose and that there is appropriate governance on content and oversight. Furthermore, the FCA should provide sufficient transparency to its stakeholders to provide assurance in relation to standard design and on-going changes.

- FCA provide stronger guidance around alignment of reporting requirements with TCFD, ISSB and TPT standards (when appropriate rules are introduced), not just as reference documents.

Q34. Do you agree that our proposed climate disclosure rule should apply to issuers of equity securities and issuers of depositary receipts only, with other securities addressed through the Technical Note? Y/N. Please give your reasons.

We recommend that the sustainability-related disclosure requirements are extended to the listed debt market given increasing reliance of oil and gas companies on bonds for their capital requirements and the relatively less mature disclosures on climate in this asset class. Such a measure is particularly pertinent in an environment where companies are tending to issue bonds with longer maturities, increasing the risk profile of these instruments. To illustrate, for example, TotalEnergies, a French integrated oil company, issued $4.25bn of bonds, with over 70% maturing beyond the key net-zero deadline of 2050, when oil demand is expected to fall by almost half as per predictions by IEA.[2]

While we acknowledge the steps to improve disclosures for labelled debt, it comprises only a small portion of the total outstanding debt in the carbon-intensive sectors.[3] To support investors that are setting net zero targets across asset classes, we recommend that FCA expands the requirements to apply to debt issuers.

Question 40: Should we provide additional guidance relating to climate disclosures for mineral companies (including mining and oil and gas)? Please give your reasoning, and if so, how should we do so?

Brunel recommends that the FCA provides additional guidance on mineral companies including mining, oil and gas to enable investor access to material information on the impact of climate change related risks on these companies. Specifically, we are strongly supportive of FCA's proposal to include an atmospheric viability test within the Competent Person's Regime, for assessing the future financial viability of fossil fuel-based reserves such as coal, oil, and gas.

This test would assess the compatibility of fossil fuel reserves with global carbon budgets, considering different authoritative climate scenarios and price assumptions. The CPR should detail what percentage of an issuer's reserves would be viable under a Paris aligned Net Zero Scenario or other relevant climate and energy sector scenarios, provided by recognised and credible sources such as the International Energy Agency (IEA) or Intergovernmental Panel on Climate Change (IPCC).

We believe accounting for risks related to climate change in investment decision making is aligned with our fiduciary duty, just as any other material financial risk that manifests over the time frames relevant to a pension fund. As the FMLC paper notes, climate change and the response to it from governments, businesses and consumer will lead to changes in behaviour and conduct, law and regulation, economies and finance, confidence and reputation which go directly to due

[2] https://anthropocenefii.org/downloads/AFII-Beware-Long-Oil-Bonds.pdf
[3] https://www.lseg.com/content/dam/lseg/en_us/documents/sustainability/tracing-carbon-intensive-debt-lseg.pdf

consideration of financial risk and return.[4] And therefore, any prudent investor, including a pension fund that seeks to work in the best interests of clients and ultimate beneficiaries, will need to demonstrate rigour of analysis in consideration of these risks - including in terms of the systemic impacts of ongoing fossil fuel extraction and infrastructure expansion.

Critical factors in this analysis would be the viability of the development of future reserves and the possibility of the assets becoming stranded, as the impacts of climate change become severe and more frequent, resulting in an inevitable policy response.

Brunel, like many other asset owners and managers, has set net zero targets and pathway to achieve them across investments. It, therefore, becomes critical for us to examine how fossil fuel exposure can impact on the remaining carbon budget and the long-term climate risks that it presents, particularly given IEA's warning that further expansion of oil and gas will need to be seriously curtailed in order to meet the goals of the Paris Agreement.

Although regulations and requirements around environmental disclosures have been tightened in recent years, they have failed to address prevailing information gaps relating to viability of fossil fuel reserves from a climate perspective or impact on global carbon budgets.

Introducing an "atmospheric viability test" as part of the Competent Person's Report (CPR) would directly address this. The production of a CPR (or mineral expert's report) is relevant to mining companies, as well as oil and gas companies, which are either seeking admission, or have been admitted, to the LSEG or AIM market. This test would evaluate the viability of fossil fuel reserves - against different demand and price scenarios aligned with the Paris Agreement temperature goals - providing investors with critical information on whether underlying assets can realistically be developed without exceeding global carbon budgets.

This would complement the current CPR tests responsible for assessing the reserves' geological extractability and commercial viability and provide a more

[4] https://fmlc.org/wp-content/uploads/2024/02/Paper-Pension-Fund-Trustees-and-Fiduciary-Duties-Decision-making-in-the-context-of-Sustainability-and-the-subject-of-Climate-Change-6-February-2024.pdf

comprehensive and holistic picture of the risks the company faces and in turn, an investor. The introduction of the atmospheric viability test will also enable companies to be consistent with disclosure elsewhere in the prospectus and TCFD reporting - provided that the FCA provides clear guidance that companies align price and demand assumptions and analysis in the CPR with other information presented by the company including in financial statements. We believe the incorporation of the atmospheric viability test within the CPR will not pose extensive costs (as a desk study) or prove challenging in terms of access to expertise, given the profile of experts within CPR advisory firms.

In addition to this, we recommend that:

- CPR's commercial viability test is strengthened by explicit incorporation of the financial consequence of decarbonisation and physical risks in the economic assessment of reserves. This will enable more accurate forecasting in the context of evolving implications from climate change.
- FCA provides guidance to ensure greater consistency between climate disclosures required in the CPRs and financial statements, for e.g. in relation to critical climate related forward-looking assumptions and estimates that could have an impact on the valuation of assets.

Conclusion

We are supportive of the proposals to create additional sustainability disclosure requirements that will enable investors to make better capital allocation decision and promote greater market efficiency.