BRUNEL
Pension Partnership

Reviewing the effectiveness of Brunel Pension Partnership's policy advocacy 2020-2022

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Introduction

The Brunel Pension Partnership Climate Change Policy, published in January 2020, presented a five-point plan to build a financial system which is fit for a low carbon future. The plan identified the need for Brunel to act and influence beyond its own investment and operations and noted policy as one of the five action areas. Brunel understands public policy – regulation, economic incentives, disclosure expectations – as that which establishes the rules of engagement for companies and for investors, and that before systemic change can occur there needs to be a comprehensive climate change policy framework in place. This is set to the backdrop of the UK Government, in 2021, committing in law to reduce emissions by 78% by 2035 compared to 1990 levels.

To guide Brunel's work the Climate Change Policy included a general call for "policy makers to establish comprehensive and robust climate change policy frameworks. These needed to deliver significant reductions in greenhouse gas emissions, accelerate progress towards the low carbon economy, and enable effective adaptation to the unavoidable impacts of climate change". The call was supplemented with specific policy advocacy objectives to be acted on in the two-year period between 2020-2022 (these can be found in theAppendix).

Policy advocacy outcomes are difficult to clearly define and consequently an objective assessment of successful actions is equally difficult. The purpose of this document is to provide an overview of how the policy landscape, with a focus on the UK and Europe, has developed in the past two years; including Brunel's asks in each policy area. Policy advocacy involves both formal and informal actions each of which play important roles in bringing about change in the policy landscape. This document will include a number of the formal actions Brunel has taken (e.g. meetings, letter writing, consultation responses). Brunel's informal actions though, not readily captured due to practical constraints, (e.g. capacity building amongst peers through sharing learnings and best practice, chairing the Institutional Investor Group on Climate Change, and contributing thought leadership to COP26) have arguably been as significant in advancing the policy agenda.

Readers of this review should gain an understanding of:

- how climate-related policy in different areas has progressed over the past two years;
- advocacy actions Brunel has taken and;
- which of Brunel's asks require further attention.

Executive Summary

Developing a robust policy landscape that promotes a more sustainable and resilient financial system and which supports a managed transition to net-zero is an iterative process. It requires voices and action from multiple stakeholder groups signalling the desired changes. The policy progress presented below includes various stages of that iterative process from knowledge building to voluntary measures through to mandatory regulation encompassing large sections of the economy. Certain policy areas have progressed further than others, but this is to be expected. Brunel's climate change policy acknowledged its unique position within the investment industry and its potential for broader influence. Over the past two years Brunel has undertaken numerous policy advocacy actions, aligned with the goals set out in the Brunel climate change policy, including consultation responses, direct engagement with regulators, industry association leadership, and capacity building within the investment industry and its peer group.

Policy Area	Current Status	Brunel Formal Advocacy Actions	What Next
Develop a financial system fit for a net-zero and resilient economy and society	The past two years has seen some progress in the introduction of policy measures such as taxonomies that define the economic activities that will support a transition to a net-zero future. Progress is being led at the European Union level. There is also evidence of funding being made available for the development of low carbon technologies.	Brunel was a co-signatory to several letters to both the UK Prime Minister and UK Transport Secretary on NDCs, zero-emissions vehicles and sustainability-related policy more broadly. Brunel also supported a letter to the EU on methane policy.	Focus is needed on ensuring the UK taxonomy is fit for purpose as a transition tool for the UK economy, and ensure it is interoperable with the EU taxonomy. Advocating for dedicated financial flows to low carbon technologies will continue to be needed. Brunel proposes to include Investor-State Dispute Settlement more prominently in the future both in relation to risk but also client/beneficiary demand.
Mandatory climate reporting	In the UK there has been good progress on mandating climate reporting amongst its largest companies and the investment community. Progress has also been good at the EU level, in particular with SFDR due to come fully into force this year. The SEC's recent announcement for companies to include climate-related disclosure in their Form 10-K is a positive development.	Brunel responded to multiple consultations covering climate reporting, promoting the need for mandatory legislation. Brunel's CRIO was a member of the DWP working group covering climate risk reporting for occupational investment schemes. The CRIO also sat on the SASB Investor Advisory Group which is now part of the International Sustainable Standards Board (ISSB).	As much of the policy in the UK and EU is in the early stages of implementation, policy makers need to be encouraged and supported to effectively implement it. This could for example be through contributing to review processes or building capacity amongst stakeholders e.g. ISSB IAG. A priority area will be the review of proposals relating to mandatory disclosures issued by the Secretary of State relating to the LGPS.
Functioning carbon markets and carbon pricing	Although progress is being made in expanding the scope of carbon pricing initiatives, the World Bank Group State and Trends of Carbon Pricing 2021 found that only 3.76% of emissions are covered by a carbon price above $40/tCO2e (the bottom range of 2020 prices recommended to be Paris compliant). The OECD's Carbon Pricing in Times of COVID-19 report finds that almost half of all CO2 emissions from energy use in G20 economies are now priced.	In each of the past two years Brunel has contributed and been signatory to the Global Investor Statement to Governments on the Climate Crisis. The latest called on governments to take 5 specific policy actions, including a call for robust carbon pricing.	Carbon prices in implemented initiatives should be increased to levels to meet the Paris Agreement, namely $40–$80/tCO2e by 2020 and $50–$100/tCO2e by 2030. Global GHG emissions coverage needs to be increased, both by expanding the scope of implemented schemes and encouraging jurisdictions without schemes to begin implementation.

Policy Area	Current Status	Brunel Formal Advocacy Actions	What Next
Fossil fuel subsidies	Fossil fuel subsidies remain at high levels. IEA reports the value of explicit fossil fuel subsidies in 2021 were $440 billion similar to 2018 levels. When including implicit subsidies (undercharging for environmental costs and foregone consumption taxes) IMF analysis suggests the production and burning of coal, oil and gas was subsidised by $5.9tn in 2020.	In each of the past two years Brunel has contributed and been signatory to the Global Investor Statement to Governments on the Climate Crisis. The latest called on governments to take 5 specific policy actions, including a call to phase out fossil fuel subsidies. Brunel also engaged on subsidies in other areas, such as ensuring EU agricultural subsidies are aligned with the Paris Agreement and broader environmental goals.	Progress in the area of fossil fuel subsidy reform remains very weak. Challenging fossil fuel subsidies, along with any other counterproductive subsidies, continues to be a critical area to enable and manage transition to a net zero economy.
Socially inclusive just transition	At the COP26 summit Just Transition gained more prominence than in previous summits. Sixteen industrialised country governments along with the EU issued a declaration on Supporting the Conditions for a Just Transition Internationally. France, Germany, UK, US and EU have launched the International Just Energy Transition Partnership with South Africa. Whilst Scotland published a Climate Emergency Skills Action Plan (CESAP) 2020-2025 to support Scotland's just transition to net zero.	Brunel has sent letters to UK and EU leaders covering the need to include Just Transition considerations when formulating policy and strategy. Brunel is a member of Financing the Just Transition Alliance (FJTA). The Alliance aims to identify concrete steps that the financial sector can take to scale up climate action which also delivers positive social impact, both in terms of maximising the social benefits of net zero and also making sure no one is left behind.	There has been increased formal recognition of a socially inclusive just transition in formal climate-related commitments. Whilst signalling is strong there is limited progress in delivery of a just transition against these commitments. Action is now needed to translate some of these commitments into actionable policy. The Financing the Just Transition Alliance (FJTA) workplan continues to actively develop.
Regulatory barriers	UK legislation and discussion papers (e.g. SDR) signal progress in making sustainability-related investment data more accessible and integrated into the financial system.	Brunel's CRIO is a member of the Green Technical Advisory Group overseeing the Government's delivery of a Green Taxonomy.	There has been little explicit progress in this category, though it remains a key policy area to facilitate a smooth transition to a low carbon future.
Integration and mandates	Good progress has been made in the UK with major financial regulators now holding remits that include climate change. The FRC is due to transition into ARGA in 2023 and will include a climate change remit.	Brunel responded to consultations by the PRA and BEIS with asks for climate change to be integrated and mandated.	It will be important to hold financial regulators accountable for effectively and sufficiently integrating climate change.
Skills and knowledge	In the UK the CFA launched the Certificate in Climate and Investing course. The FCA hired a Director of Environment Social and Governance, in a newly created role.	Brunel has undertaken policy advocacy actions to encourage the UK audit industry to increase oversight and integration of climate issues into company financial statements.	Brunel will encourage the creation and recruitment of responsible investment and climate-related roles within intermediaries who are critical influencers in the action of investors and companies.
Climate in trade agreements	Whilst there has been limited progress in climate being explicitly included in trade agreements it is clear that the two areas are becoming more entwined. The WTO raises trade and trade policy as critical pieces of the policy "toolbox" to achieve shared climate goals at the depth and speed required by the climate emergency.	Brunel has undertaken limited formal policy advocacy action in this area.	This remains a key policy area to facilitate a smooth transition to a low carbon future.

Policy Area: **Develop a financial system fit for net-zero and resilient economy and society**

Brunel's Ask: Brunel published a policy objective for the introduction of policy measures – for example, product standards, limitations on high carbon technologies, support for low carbon technologies – that accelerate the move away from high impact activities and sectors.

UK Policy Developments

In October 2021 the UK Government released Greening Finance: A Roadmap to Sustainable Investing, it announces a suite of measures including the introduction of a UK Taxonomy which will draw on the EU approach. Criteria for the first two environmental objectives (climate change mitigation and adaptation) are expected at the end of Q1 2022 for consultation in advance of legislation at the end of the year.

The UK Infrastructure Bank, launched June 2021, will provide infrastructure finance to tackle climate change and support regional and local economic growth across the UK.

October 2021, the UK Government published its Net Zero Strategy: Build Back Greener policy paper providing an overview of how the Government plans to meet net zero.

European Policy Developments

The EU 'Fit for 55' package of legislative proposals includes increasing funding for the Modernisation and Innovation Funds related to the EU ETS (which support transition to low carbon technologies). The proposals also seek to "increase the carbon removals to -310 million of tonnes CO2 equivalent by 2030 and to achieve climate neutrality in the combined land use, forestry and agriculture sector by 2035 at EU levels."

The first EU Taxonomy Climate Delegated Act, adopted in June 2021, defines the technical screening criteria for economic activities that make a substantial contribution to climate change mitigation and climate change adaptation. It creates a common ground for companies and investors to credibly talk about green activities that contribute to the European Green Deal and make Europe climate-neutral by 2050. In February 2022, the Commission agreed in principle a complementary Act for certain nuclear and gas energy activities to be included.

Other International Policy Developments

Multiple countries are developing their own taxonomies. Malaysia published in April 2021 with a focus on climate change. China updated its Green Bond Endorsed Projects Catalogue in April 2021. Whilst Canada and Singapore, amongst others, are in advanced stages of development.

Brunel's Formal Advocacy Actions

Brunel was a co-signatory to several letters in this area. In December 2020, as signatory of a letter to the UK Prime Minister by businesses and investors, Brunel called for the Government, in advance of COP26, to set an ambitious Nationally Determined Contribution (NDC) aligned with the Paris Agreement, the UK's net zero emissions by 2050 target, and advice from the Climate Change Committee on the UK's 2030 target. In January 2021, Brunel was signatory to an asset owner letter written to the UK transport secretary calling for policy measures to support the transition to zero-emissions vehicles. In January 2021, Brunel was signatory to an asset owner letter written to the UK Prime Minister promoting policy measures to support the UK's net zero and 2030 NDC ambition. It also sought to highlight how the financial sector can contribute to these ambitions.

Brunel in November 2020, signed a letter to the UK Prime Minister calling for Green Gilts issuance. The letter encouraged the Government to adopt a proposal by the Impact Investing Institute, the Grantham Research Institute on Climate Change, and the Green Finance Institute for Green+ Gilts that added a social focus alongside environmental investment, catering for a just transition.

The Institutional Investor Group on Climate Change (IIGCC) sent a letter on EU methane policy, which Brunel signed, to the European Commission in May 2020. It was resent in April 2021 to reiterate the call to establish a mandatory performance standard, requiring a minimum of 0.25% intensity of upstream supply covering all gas sold in the EU by 2025.

In July 2021 Brunel signed FAIRR's Where's the Beef statement, which called for G20 nations to improve disclosure on their targets for emissions reduction in agriculture within or alongside their NDC commitments at COP26.

Current Status and What Next

The past two years has seen some progress in the introduction of policy measures such as taxonomies that define the economic activities that will support a transition to a net-zero future. Progress is being led at the European Union level. There is also evidence of funding being made available for the development of low carbon technologies.

Focus is needed on ensuring the UK taxonomy is fit for purpose as a transition tool for the UK economy, and ensure it is interoperable with the EU taxonomy. Advocating for dedicated financial flows to low carbon technologies will continue to be needed.

Brunel has started discussions with policy makers and other investors relating to the Energy Charter Treaty and the use of the Investor-State Dispute Settlement by some corporates impacted by changes in legislation relating to climate change. Brunel proposes to include ISDS more prominently in the future both in relation to risk but also client/beneficiary demand.

Policy Area: **Mandatory climate reporting**

Brunel's Ask: Brunel published a policy objective to encourage policy makers to introduce mandatory climate change disclosure requirements for companies, with a focus on providing clear, decision useful information and encouraging a clear articulation of the risks that companies and their investors face.

UK Policy Developments:

December 2021, the FCA published two Policy Statements confirming final rules and guidance to promote better climate-related financial disclosures, effective January 2022. FCA-regulated asset managers and asset owners will have to disclose how they take climate-related risks and opportunities into account in managing investments. They'll also have to make disclosures about the climate-related attributes of their products.

November 2021, FCA released a discussion paper on Sustainability Disclosure Requirements (SDR) and investment labels. SDR will require real economy companies, including listed issuers, and asset managers and asset owners to report on their sustainability risks, opportunities and impacts. Policy proposals are planned for consultation Q2 2022.

October 2021, the UK Government implemented The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. The Government also announced the intention to extend mandatory climate-related reporting to cover 1,300 of the largest UK-registered companies and financial institutions from April 2022.

European Policy Developments:

The Sustainable Finance Disclosure Regulation (SFDR), published in December 2019, imposes mandatory ESG disclosure obligations, including climate specific data, on investors. Aspects of the legislation were implemented in 2021 with the remaining aspects coming in July 2022.

April 2021, the European Commission adopted the Corporate Sustainability Reporting Directive (CSRD). CSRD will require all large listed and non-listed entities (and possibly listed SMEs) to report on a set of sustainability standards (including climate) that will be developed by the European Financial Reporting Advisory Group (EFRAG).

Other International Policy Developments:

The G7 released a statement of intent to mandate climate-related financial reporting, aligned with the recommendations of TCFD.

November 2021, IFRS Foundation announced the formation of the International Sustainability Standards Board (ISSB). ISSB intends to become the framework for a comprehensive global baseline of sustainability disclosure. It will see consolidation of leading investor-focused sustainability disclosure organisations including, Climate Disclosure Standards Board (CDSB—an initiative of CDP) and the Value Reporting Foundation (VRF—which houses the Integrated Reporting Framework and the SASB Standards). Initially the board will release prototype climate and general disclosure requirements.

In March 2022 the US Securities and Exchange Commission (SEC) proposed rules on 'The Enhancement and Standardization of Climate-Related Disclosures for Investors'. The proposed rules, aligned with TCFD, would require disclosures on Form 10-K about a company's governance, risk management, and strategy with respect to climate-related risks. Moreover, the proposal would require disclosure of any targets or commitments made by a company, as well as its transition plan.

Brunel's Formal Advocacy Actions

Brunel responded to a number of consultations calling for mandatory climate-related disclosures.

Brunel's CRIO was a member of the DWP working group relating to the development of guidance linked to DWP's consultation on Taking action of climate risk: improving governance and reporting by occupational pension schemes, encouraging mandatory climate change disclosure for all companies, assets and other issuers. Brunel also responded to the consultation.

In September 2020, Brunel responded to the FCA consultation on climate-related disclosures by listed issuers. In September 2021, Brunel responded to an FCA consultation on enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers.

In July 2021, the Transition Pathway Initiative (TPI) responded to the TCFD Forward-Looking Financial Sector Metrics Consultation. Faith Ward was a signatory as a TPI Steering Committee member, and with support from Brunel. The response raised asset owner concerns on the TCFD proposals and sought to advise on actions that could be taken to ensure effective climate metrics were recommended.

Brunel's CRIO is a member of the SASB Investor Advisory Group which has strongly advocated for an international standard on sustainability disclosure. From June 2022 SASB will consolidate under the IFRS Foundation and support the development of the ISSB framework.

Led by IIGCC, in September 2021, Brunel wrote to companies identified as highly exposed to climate impacts seeking that they implement the published expectations on tackling physical climate risks and publish enhanced physical risk and opportunity disclosures. These expectations complement and reinforce existing frameworks, such as TCFD and EU sustainable finance regulation in relation to climate change adaptation.

In November 2021, Brunel signed engagement letters sent by Arabesque to EU tech companies identified as not sufficiently disclosing their emissions.

Current Status and What Next

In the UK there has been good progress on mandating climate reporting amongst its largest companies and the investment community. Progress has also been good at the EU level, in particular with SFDR due to come fully into force this year.

As much of the policy in the UK and EU is in the early stages of implementation, policy makers need to be encouraged and supported to effectively implement it. This could for example be through contributing to review processes or building capacity amongst stakeholders.

A priority area will be the review of proposals relating to mandatory disclosures issued by the Secretary of State relating to the LGPS.

Policy Area: **Functioning carbon markets and carbon pricing**

Brunel's Ask: Brunel published a policy objective for the adoption of a meaningful price on carbon, which is material (i.e. sufficient to drive change at the scale and rate required), progressive over time and widespread (i.e. applies to all major sectors of the economy).

UK Policy Developments:

UK ETS started operating in January 2021 covering GHG emissions from the power sector, energy-intensive industries and aviation, and about a third of the UK's emissions. The emissions cap will be brought in line with a net-zero trajectory by 2024. The scheme is going to be reviewed in 2023 and 2028. Monthly average prices from August 2021 to December 2021 have ranged from £44 – £75/tCO2e.

European Policy Developments:

As part of the Fit for 55 legislative package the EU is planning to strengthen the EU ETS in order to meet the increased emissions reduction target for EU ETS sectors of 61% by 2030, compared to 2005 levels. This involves reducing current emissions allowances and increasing the rate of decrease for allowances, eradicating free allowances to aircraft operators by 2027, and expand emissions trading to maritime activities. It will also introduce a new system for fuels used in road transport and buildings.

COP26 saw agreement of rules on Article 6 (Cooperative Implementation) of the Paris Agreement, which will encourage international cooperative approaches to achieving NDCs.

Other International Policy Developments:

Across the globe, there are now 65 carbon pricing initiatives implemented (includes emissions trading schemes and carbon taxes), covering 12Gt CO2e and representing 21.5% of global GHG emissions. This is an increase from 15.1% of global GHG emissions being covered in 2020, the increase can be mostly attributed to the launch in February 2021 of China's national ETS (which covers 40% of its GHG emissions).

Brunel's Formal Advocacy Actions

Global Investor Statement to Governments on the Climate Crisis – Brunel in 2021, alongside 733 investors representing over $52 trillion in assets, was signatory to this statement urging all world governments to take 5 specific policy actions, including a call for robust carbon pricing.

In September 2020, Brunel signed the Global Investor Statement to Governments on Climate Change alongside 631 investors representing over $37 trillion in assets. The letter called for policy actions from governments to become climate neutral by 2050, including putting a meaningful price on carbon.

Current Status and What Next

Carbon pricing is seen as one of the most cost-effective and flexible policy tools to reduce global GHG emissions. CDP's 2021 Global Carbon Price report found 40% of assessed companies currently face or expect to face regulation on the price of emissions in the next 3 years. Although progress is being made in expanding the scope of carbon pricing initiatives, the World Bank Group State and Trends of Carbon Pricing 2021 found that only 3.76% of emissions are covered by a carbon price above 40/tCO2e (the bottom range of 2020 prices recommended to be Paris compliant).

The OECD's Carbon Pricing in Times of COVID-19 report finds that almost half of all CO2 emissions from energy use in G20 economies are now priced – with 49% of emissions priced in 2021, up from 37% in 2018. However, carbon prices are increasingly divergent across G20 countries.

Carbon prices in implemented initiatives should be increased to levels to meet the Paris Agreement, namely $40–$80/tCO2e by 2020 and $50–$100/tCO2e by 2030. Global GHG emissions coverage needs to be increased, both by expanding the scope of implemented schemes and encouraging jurisdictions without schemes to begin implementation.

Policy Area: **Fossil fuel subsidies**

Brunel's Ask: Brunel published a policy objective for the removal of fossil fuel subsidies.

UK Policy Developments:

OECD figures from the fossil fuel support database suggest the UK currently subsidises the industry through tax breaks and subsidies for exploration and research and development to the value of £10 billion a year.

European Policy Developments:

The European Commission State of the Energy Report states fossil fuel subsidies by EU member countries totalled €52 billion in 2020.

Other International Policy Developments:

The Glasgow Climate Pact, signed by 197 countries at COP26, called for the phase-out of inefficient fossil fuel subsidies.

The G20 has a long-standing commitment to rationalise and phase out "inefficient fossil-fuel subsidies that encourage wasteful consumption" over the medium term. The Italian presidency of the 2021 G20 produced: Update on recent progress in reform of inefficient fossil-fuel subsidies that encourage wasteful consumption to reinvigorate action of fossil fuel reform that has remained nominally unchanged over the past decade.

New Zealand with Costa Rica, Fiji, Iceland, Norway and Switzerland have launched the Agreement on Climate Change, Trade and Sustainability (ACCTS) in 2019, it included an objective to eliminate harmful fossil fuel subsidies by using WTO trade rules.

Brunel's Formal Advocacy Actions

Global Investor Statement to Governments on the Climate Crisis – Brunel, alongside 733 investors representing over $52 trillion in assets, was signatory to this statement urging all world governments to take 5 specific policy actions, including the phasing out of fossil fuel subsidies.

Brunel also engaged on subsidies in other areas, led by Legal & General Investment Management and FAIRR. In March 2021, Brunel argued that the European Commission's proposed reforms to the Common Agricultural Policy (CAP) must be more ambitious and align with the EU's net-zero commitment, including a role for policy makers across all jurisdictions to enact large-scale agricultural subsidy reform to ensure that any subsidies are aligned with the Paris Agreement and broader environmental goals.

Current Status and What Next

IEA reports the value of fossil fuel subsidies in 2021 were $440 billion (using the price-gap approach), similar to 2018 levels, as energy prices and use rebounded, and as policy makers were hesitant to continue reforming subsidy schemes during an uncertain economic recovery.

IMF analysis suggests the production and burning of coal, oil and gas was subsidised by $5.9tn in 2020. The IMF approach looks at explicit subsidies (undercharged supply costs) and implicit subsidies (undercharging for environmental costs and foregone consumption taxes), explicit subsidies contributed to 8% of the overall figure.

Progress in the area of fossil fuel subsidy reform remains very weak. Challenging fossil fuel subsidies, along with any other counterproductive subsidies, continues to be a critical area to enable and manage transition to a net zero economy.

Policy Area: **Socially inclusive just transition**

Brunel's Ask: Brunel published a policy objective for ensuring that climate change policy is socially sustainable and takes due account of workers' rights and community interests (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate.

UK Policy Developments:

The government of Scotland published a Climate Emergency Skills Action Plan (CESAP) 2020-2025 which outlines how it will develop a skilled, flexible, and adaptable workforce to support Scotland's just transition to net zero.

European Policy Developments:

As building and road transport sectors are added to the EU ETS, the EU 'Fit for 55' legislative proposals included the creation of a Social Climate Fund to "finance temporary direct income support for vulnerable households; and to support measures and investments that reduce emissions in road transport and buildings sectors and as a result reduce costs for vulnerable households, micro-enterprises and transport users."

Other International Policy Developments:

At the COP26 summit Just Transition gained more prominence than in previous summits. The Glasgow Climate Pact referred to just transition in the context of transition to clean fuels. Further, sixteen industrialised country governments along with the EU issued a declaration on Supporting the Conditions for a Just Transition Internationally (UK was a signatory).

In 2021, France, Germany, UK, US and EU have launched the International Just Energy Transition Partnership with South Africa. The Political Declaration includes multiple explicit references to a just transition as $8.5 billion will be made available over the next 3-5 years to accelerate the decarbonisation of South Africa's economy.

Brunel's Formal Advocacy Actions

Brunel, in April 2020, joined the Green Recovery Alliance call for action. Launched by Pascal Cafin, Chair of the European Parliament Environment, the alliance brings together a coalition of policy makers, companies, trade unions and financial institutions urging, in the wake of COVID-19, a recovery package that accelerates the transition towards climate neutrality, the protection of biodiversity and a healthy eco-system.

In June 2020, as a signatory of an open letter to EU leaders on a sustainable recovery from COVID-19 Brunel called for a green and sustainable recovery that considered and accelerated climate change adaptation and mitigation needs, and includes a framework for a just transition.

In January 2021, as a signatory to a PRI led letter to the UK Transport Secretary, Brunel asked that the Transport Decarbonisation Plan should set out how autoworkers and related service providers will be protected, give details of retraining to be provided, and tackle the affordability of ZEVs for low-income groups and small businesses in the road haulage sector.

In 2021 Brunel became a member of the Financing the Just Transition Alliance (FJTA). The Alliance aims to identify concrete steps that the financial sector can take to scale up climate action which also delivers positive social impact, both in terms of maximising the social benefits of net zero and also making sure no one is left behind. In July 2021 the FJTA sent a letter to the prime minister to urge for ambitious policy action around the just transition. The FJTA workplan is active and continues to develop.

Current Status and What Next

There has been increased formal recognition of a socially inclusive just transition in climate-related commitments. Whilst signalling is strong there is limited progress in delivery of a just transition against these commitments. Action is now needed to translate some of these commitments into actionable policy.

The Financing the Just Transition Alliance (FJTA) workplan continues to actively develop.

Policy Area: **Regulatory barriers**

Brunel's Ask: Brunel published a policy objective for the removal or correction of regulatory barriers to progress and support financial policy makers and regulators in being ambitious and effective in implementation of plans to mitigate climate risk and under the Adaptation Reporting Power.

UK Policy Developments:

November 2021, FCA released a discussion paper on Sustainability Disclosure Requirements (SDR) and investment labels. The sustainable investment labels will require certain investment products to display a label reflecting their sustainability characteristics, complementing the entity- and product-level SDR disclosures. Effective labelling could help overcome some of the financial system regulatory barriers. Policy proposals, with input from the discussion paper, are due for consultation in Q2 2022.

UK Government's Greening Finance: A Roadmap to Sustainable Investing includes information on building sustainable finance systems including a chapter on 'getting the right information to market participants'. Aspects of this are already being implemented, for example, through mandatory TCFD climate disclosure discussed above.

European Policy Developments:

The Sustainable Finance Disclosure Regulation (SFDR), published in December 2019, imposes mandatory ESG disclosure obligations, including climate specific data, on investors. Aspects of the legislation were implemented in 2021 with the remaining aspects coming in July 2022.

Other International Policy Developments:

There have been limited or no significant policy developments in this area

Brunel's Formal Advocacy Actions

In November 2021, Brunel signed a letter led by FAIRR, calling for a robust EU taxonomy aligned with 1.5°C. The letter sent to the EU Commission, highlighted concerns over certain elements of the EU Taxonomy, and drew attention to the importance of the agriculture sector. It called for disclosure of information on how extra-financial companies' activities align with each relevant environmental objective (e.g. water, biodiversity), in order to provide sufficiently granular information for investors.

Faith Ward, Brunel's CRIO, is a member of the Green Technical Advisory Group overseeing the Government's delivery of a Green Taxonomy.

Current Status and What Next

There has been little explicit progress in this category, though it remains a key policy area to facilitate a smooth transition to a low carbon future. UK legislation such as SDR and discussion papers such as Greening Finance signal progress in making sustainability-related investment data more accessible and integrated into the financial system.

Policy Area: **Integration and mandates**

Brunel's Ask: Brunel published a policy objective for the integration of climate change into the mandates and into the oversight and control processes of prudential regulators and other regulatory bodies.

UK Policy Developments:

In March 2021, the UK Government announced an update to the Prudential Regulatory Committee (PRC) and Financial Conduct Authority (FCA) remits, requiring consideration for the transition to a net zero economy by 2050 when advancing objectives and discharging functions. This followed updates to the Bank of England's Monetary Policy Committee (MPC) and Financial Policy Committee (FPC) remits and means all principal financial regulator remits include climate considerations.

The Financial Reporting Council (FRC) is planning to transition from 2023 into Audit, Reporting and Governance Authority (ARGA), a new statutory regulator. The reforms leading to ARGA are intended to 'restore public trust in the way that the UK's largest companies are run and scrutinised; ensure that the UK's most significant corporate entities are governed responsibly; empower investors, creditors, workers, and other stakeholders by giving them access to reliable and meaningful information on a company's performance; and keep the UK's legal frameworks for major businesses at the forefront of international best practice'.

European Policy Developments:

There have been limited or no significant policy developments in this area

Other International Policy Developments:

The Glasgow Financial Alliance for Net Zero (GFANZ) was launched in 2021. GFANZ coalesces members from disparate initiatives into a coalition of 450 financial firms across 45 countries. Importantly GFANZ is encouraging voluntary action in 7 key net-zero areas, signalling to policy makers the readiness of the sector for regulatory change. The seven areas are: sectoral pathways, real economy transition plans, financial institution transition plans, portfolio alignment measurement, mobilising private capital, policy, building commitment.

Brunel's Formal Advocacy Actions

Brunel responded to the Prudential Regulation Authority's (PRA) consultation on Enhancing banks' and insurers' approaches to managing the financial risk from Climate Change.

July 2021, Brunel's response to the BEIS consultation on 'Restoring Trust in Audit and Corporate Governance' included an ask for integration of climate change into ARGA's mandate and for climate change to be a required topic .

Current Status and What Next

Good progress has been made in the UK with all major financial regulators now holding remits that include climate change. As these are recent developments it will be important to assess the extent to which sufficient or appropriate outcomes are occurring.

Policy Area: **Skills and knowledge**

Brunel's Ask: Brunel published a policy objective to support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

UK Policy Developments:

CFA Society of the UK launched the Certificate in Climate and Investing course, designed to deliver the knowledge and skills required by investment professionals to understand climate as it relates to investing and how to integrate climate change considerations into the investment process.

The FCA hired a Director of Environment Social and Governance, in a newly created role. The Director will develop and advocate for the FCA's approach to sustainable finance domestically and internationally.

European Policy Developments:

Sustainability-related disclosure in the financial services sector (SFDR) 'lays down sustainability disclosure obligations for manufacturers of financial products and financial advisers toward end-investors. In addition, disclosure obligations as regards adverse impacts on sustainability matters at entity and financial products levels.' Regulation such as this encourages improved knowledge within organisations and for users of financial products.

Other International Policy Developments:

There have been limited or no significant policy developments in this area

Brunel's Formal Advocacy Actions

July 2021, Brunel's response to the BEIS consultation on 'Restoring Trust in Audit and Corporate Governance' included an ask for integration of climate change into ARGA's mandate and for climate change to be a required topic .

In November 2021, Brunel supported an engagement led by Sarasin & Partners by writing to the UK Big Four Audit firms (PWC, Deloitte, KPMG and EY) calling on them to sound the alarm when company financial statements ignore the global transition to a 1.5°C temperature pathway.

Brunel has engaged with intermediaries as priority audience groups as part of its outreach.

Brunel has also engaged with companies, including signing a number of letters, to seek assurance that they are incorporating material climate-related risks in their financial statements and associated notes.

Current Status and What Next

There has been little notable progress in this category, though it remains a key policy area to facilitate a smooth transition to a low carbon future. Brunel will encourage the creation and recruitment of responsible investment and climate-related roles within intermediaries who are critical influencers in the action of investors and companies.

Policy Area:
Climate in trade agreements

Brunel's Ask: Brunel published a policy objective to play an active leading role in encouraging policy makers to integrate climate change into multilateral and bilateral trading frameworks, with a particular focus on the UK post Brexit.

UK Policy Developments:

Climate is becoming increasingly ingrained in UK Government departments strategies and spending. UK Export Finance, in September 2021, launched its climate change strategy 2021-2024 which centres on committing to net zero greenhouse gas emissions by 2050 across UKEF's portfolio and operations. Whilst the Foreign, Commonwealth and Development Office (FCDO) has allocated £534 million in UK aid spending for climate change and biodiversity in 2021/22. Further CDC Group, the UK's publicly owned impact investing arm, has a commitment to decarbonise its portfolio to achieve net zero emissions by 2050.

European Policy Developments:

The EU's Carbon Border Adjustment Mechanism (CBAM) puts a price on imports of a targeted selection of products. The Commission's proposal should prevent the risk of carbon leakage and support the EU's increased ambition on climate mitigation. It has been designed to ensure WTO compatibility.

Other International Policy Developments:

The 2019 Agreement on Climate Change, Trade and Sustainability (ACCTS) between New Zealand, Costa Rica, Fiji, Iceland, Norway and Switzerland includes climate considerations into trade.

Green finance, both in the UK and globally, is increasing and becoming more of a focus area with expected increased relevance in trade policy.

Brunel's Formal Advocacy Actions

Brunel has undertaken limited formal policy advocacy action in this area.

Current Status and What Next

Whilst there has been limited progress in climate being explicitly included in trade agreements it is clear that the two areas are becoming more entwined. The WTO raises trade and trade policy as critical pieces of the policy "toolbox" to achieve shared climate goals at the depth and speed required by the climate emergency.

This remains a key policy area to facilitate a smooth transition to a low carbon future.

Appendix

Our Policy Advocacy objectives: 2020-2022[1]

We will play an active and leading role in encouraging policy makers to establish comprehensive and robust climate change policy frameworks. Within this, we will focus particular attention on:

- The adoption of a meaningful price on carbon, which is material (i.e. sufficient to drive change at the scale and rate required), progressive over time and widespread (i.e. applies to all major sectors of the economy).
- The removal of fossil fuel subsidies.
- The introduction of policy measures – for example, product standards, limitations on high carbon technologies, support for low carbon technologies – that accelerate the move away from high impact activities and sectors.
- The removal or correction of regulatory barriers to progress and support financial policy makers and regulators in being ambitious and effective in implementation of plans to mitigate climate risk and under the Adaptation Reporting Power.
- The integration of climate change into the mandates and into the oversight and control processes of prudential regulators and other regulatory bodies.
- Ensuring that climate change policy is socially sustainable and takes due account of workers' rights and community interests (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate.

We will play an active leading role in encouraging policy makers to integrate climate change into multilateral and bilateral trading frameworks, with a particular focus on the UK post Brexit.

We will encourage policy makers to introduce mandatory climate change disclosure requirements for companies, with a focus on providing clear, decision useful information and encouraging a clear articulation of the risks that companies and their investors face.

We will support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

[1] https://www.brunelpensionpartnership.org/wp-content/uploads/2020/01/Brunel-Climate-Change-Policy-rev01.pdf

This report has been prepared by Chronos Sustainability on behalf of Brunel Pension Partnership.

Chronos Sustainability is a specialist advisory company with particular expertise in responsible investment. Established in 2017, Chronos has worked extensively with global investors to build their understanding of the investment implications of sustainability-related issues.

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