GLOBAL FORUM ON RESPONSIBLE BUSINESS CONDUCT

SESSION NOTE

Investor Engagement in Combatting Climate Change

Wednesday 20 June 2018 – 16:00-17:30
Room CC18 - OECD Conference Centre

Organised with OECD Watch

Since the adoption of the Paris Agreement at the 2015 United Nations Climate Change Conference in Paris, climate change has steadily been making its way onto the agenda of institutional investors and individual shareholders. In addition to policy drivers, investors are increasing cognizant of the significant financial risk posed by climate issues. A modelling study by Mercer demonstrated that climate change, under the scenarios considered by the investment modelling, will inevitably have an impact on investment returns[1] and as such investors need to consider climate change as a new return variable.

This apparent growth in investor awareness of climate change as a financial risk seems less aparant in investee corporations. According to KPMG's Survey of Corporate Responsibility Reporting 2017, 72% of the surveyed companies amongst the 4,900 largest companies still do not acknowledge the financial risk of climate change in their annual reports.[2]

This session focuses on the strategies and tools that investors are employing to identify and respond to climate risks in their portfolios with a particular focus on active engagement with investee companies, whereby investors use their ownership stake in a company to influence its decision-making.

Active engagement or stewardship can, according to its advocates, help encourage corporate boards and senior executives to make the transition to a low carbon world. In this respect the number of climate-related shareholder resolutions hit a record high in 2017, with a 300% increase in motions (184 versus 63 in 2016) and with investment managers controlling around 45% of global assets under management supporting them.[3] Civil society is also putting pressure on institutional investors to influence corporations' business strategies through shareholders' resolutions in the oil and gas and energy utility sectors.

For example, in the last 12 months, the Australasian Centre for Corporate Responsibility (ACCR), has led a project calling on companies to establish transparent governance processes in relation to industry association memberships, in order to ensure alignment between company climate commitments and trade association public policy advocacy positions. ACCR's shareholder resolution to the world's largest miner, BHP, is said to have helped the company decide to exit the World Coal Association in April 2018. ACCR's resolution to Rio Tinto on the same theme was co-filed with Swedish pension giant AP7, the Church of England Pensions Board, and Australian fund Local Government Super and was heard at the company's Australian annual governance meeting on 2 May, receiving a record 18.03% vote in favor of the resolution.[4]

The big question is can these company specific cases add up to system change? And how should investors prioritise between the different strategies they have for contributing to the transition to a low emission and climate resilient world?

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Questions for consideration

- How can investors best collaborate amongst each other and other stakeholders to promote climate consistent action amongst companies they invest in?
- Under what circumstances are shareholder resolutions effective in promoting action to combat climate change?
- What other strategies can investors use for managing climate risk and what are the relative strengths and weaknesses of these strategies?

Sources

- Mercer (2015), "Investing in a time of climate change", https://www.mercer.com/content/dam/mercer/attachments/global/investments/mercer-climate-change-report-2015.pdf.
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- Carney, M. (2018), "A Transition in Thinking and Action", Speech given at International Climate Risk Conference for Supervisors, De Nederlandsche Bank, Amsterdam, 6 April 2018 https://www.bankofengland.co.uk/speech/2018/mark-carney-speech-at-international-climate-risk-conference-for-supervisors
- ACCR, "Calling on Rio Tinto's Shareholders" http://www.accr.org.au/rio_tinto (accessed 12 June 2018)
- Preventable Surprises, "Flip the switch: a guidance note for transition planning at energy utility companies" (accessed 13 June 2018)