

# Climate market watch

February 2020

---

## Articles this month:

**The environmental impact of Brexit**

**GreenBiz's 2020 State of Green Business report**

**FCA Policy Statement**

### **The environmental impact of Brexit<sup>1</sup> (summary)**

Following the passing of the Withdrawal Agreement Act, Brexit went ahead on 31st January, and the UK has begun the process of cutting ties with the European Union, its laws and its institutions. Most of the UK's environmental laws are derived from European law.

The UK's relationship with EU laws, courts and institutions fundamentally changes after Brexit. Once the implementation period is over (it's currently set to run until 31st December 2020) the UK government will be able to set its own targets, policies and laws on environmental protection.

None of the Brexit legislation so far contains a non-regression clause meaning the government can set weaker environmental regulations and standards than those currently imposed by EU law. This means environmental protection could get worse instead of better. Similarly, the Withdrawal Agreement Act includes a clause that gives ministers the power to authorise any UK court to overturn judgments of the Court of Justice of the EU – meaning current interpretations of environmental law could be changed or challenged.

### **How is this relevant?**

Given that the Brexit legislation does not yet include non-regression clauses as well as the WAA clause to overturn EU judgements, this indicates that, if anything, requirements on pension scheme trustees to consider environmental factors as a matter of course could be relaxed.

However, this contradicts the current government's indications that climate considerations are at the forefront of their minds following PM Boris Johnson's statement on 4 February that the ban on diesel, petrol and hybrid cars will be brought forward to no later than 2035.

### **Our view:**

We believe it would be a dire mistake for the UK Government to overturn any EU legislation set in this area and doing so would be taking steps backwards. Whilst EU environmental legislation is stated to be some of the best in the world Brexit provides an opportunity for the UK to start making strides ahead of other countries, paving the way and cementing the UK as a world leader in this area. We should all be pushing for this.

**Further reading suggestions:** The Government's Draft Environment (Principles and Governance) Bill 2018<sup>2</sup>, which was most recently updated in July 2019, sets out how the Government will maintain environmental standards and build on the 25 year Environment Plan as the UK leaves the EU. Find more information [here](#).

---

<sup>1</sup> <<https://www.clientearth.org/the-environmental-impact-of-brexit/>>

<sup>2</sup> <<https://www.gov.uk/government/publications/draft-environment-principles-and-governance-bill-2018>>

### GreenBiz's 2020 State of Green Business report

GreenBiz has published their 13th annual edition of the State of Green Business, which contains key data and trends to watch in the world of sustainable business. The first half of the report shares the 10 trends sustainable business professionals should be tracking in 2020 — the emerging areas and technologies that GreenBiz editors and analysts believe will be impactful as companies address environmental and social challenges and opportunities.

The report also offers the State of Green Business Index, produced by Trucost, which tracks nearly 40 indicators of progress over the past five years — including trends in resource efficiency, corporate reporting and transparency, risk assessment and investments in clean technologies.

#### How is this relevant?

The report covers ten key emerging trends in the sustainable business area which will be important to consider when discussing long term investment strategy and ensuring sustainability. The report also suggests key players to watch in each of the trend areas, as well as concepts and actions that financial services companies are taking in considering both the climate crisis and sustainability when making asset-investment ideas.

Secondly the report highlights a number of key figures and information gathered from the business world on capital impacts, corporate performance, sustainable investments and climate risks, all of which can be drawn into covenant monitoring situations and stakeholder discussions.

#### Our view:

This report is a great source of information and provides an engaging and useful overview of what is going on across different industries. It's wonderful to see so much action being taken as well as the 'key players' so far being highlighted and recognised for the work being done. This is very useful collateral that can be used in discussions to ensure that steps are being taken to ensure businesses are and will continue to be sustainable, as well as challenging asset managers on what investments they are making.

### FCA Policy Statement

The FCA has published a policy statement confirming its decision to extend the remit of independent governance committees (IGCs) following a consultation period. The proposals are aimed at helping protect consumers from investments that may be unsuitable because of environmental, social and governance (ESG) risks including climate change and to make sure consumer concerns are taken into account.

#### How is this relevant?

The statement predominantly references IGCs of pension schemes, however it also includes updates to other parts of the FCA Handbook. This results in elements of the policy statement applying to personal pensions as well as contract based workplace pensions. The final rules come into force on 6 April 2020 so you should get in touch with your advisor before this point to ensure compliance ahead of this date.

#### Our view:

This is a natural step for the FCA to take after requiring trust and contract based schemes to include ESG considerations within their duties last year. The FCA has not yet taken what we consider to be a "hard" approach to ESG risks as of yet, with the current requirements being dismissed as a check-box exercise by some. So whilst this extension to IGCs is welcome there is still a way to go before the gravity of climate change is reflected in their policies more definitively.

---

<sup>3</sup> <<https://www.greenbiz.com/report/2020-state-green-business-report>>

<sup>4</sup> <<https://www.fca.org.uk/publications/policy-statements/ps19-30-independent-governance-committees>>