Baker McKenzie.

PRI Principles for Responsible Investment

Recommendations of Task Force on Climate-related Financial Disclosures – review of local relevance

European Union

1. Background - why this review?

Without better climate disclosure, investors cannot manage risks and opportunities associated with an energy transition. In December 2016, the industry-led Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) released draft recommendations for climate-related financial disclosures. The Principles for Responsible Investment (PRI) and global law firm Baker McKenzie have together produced a series of country reviews examining how these voluntary recommendations integrate into existing regulation and soft law in specific markets, and how investors and companies in those markets can apply them. The country reviews cover Brazil, Canada, the European Union (EU), Japan, and the United Kingdom (UK).

This review of the EU's existing regulation describes its existing climate change-related commitments (see Appendix 1), and considers existing regulation and policy on climate-related disclosure for companies, and investors/pension funds. It draws on the regulatory analysis from PRI and MSCI’s Global Guide to Responsible Investment Regulation, which examined the breadth of responsible investment-related public policy initiatives across 50 economies, including the EU.

The PRI’s response to Baker McKenzie’s findings

In the EU, existing regulation requires disclosure of material risks. The TCFD’s recommendations will assist in implementing this existing EU regulation. The TCFD’s recommendations are voluntary and do not supersede national disclosure requirements. Implementation of the TCFD will also support the EU’s national climate change commitments under The Paris Agreement (see Appendix 1). Certain Member States of the EU, such as France have gone further than EU requirements with Article 173 of the French Energy Transition Law an innovative example for other governments, regulators and investors to monitor with interest.

Action the PRI will take

The PRI has over 1,700 signatories in 50 countries, representing over US$72 trillion in assets under management. In 2017-18, the PRI will support:

- Active ownership: We will convene collaborative global investor engagement with companies to adopt the TCFD's final recommendations.
- Investor disclosure: We will evolve the PRI's Reporting Framework with the TCFD's guidance for asset owners and asset managers.
- Investment practices: We will advance investment practices in assessment and management of climate-related risks and opportunities.
- Collaboration with policymakers: we have experience of investment practices and policy in several capital markets; we will draw on this expertise to encourage G20 policymakers to implement the TCFD
- Addressing barriers around responsibile investment: The PRI has set out its priorities for the next ten years in its Responsible Investment Blueprint, published in May 2017. The PRI’s work will include fiduciary duty, ESG disclosure and a sustainable global financial system.

The PRI recommends three actions for the EU:

1. The EU should publicly support the TCFD recommendations, as should The European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority.
2. The EU should encourage high quality disclosures based on the TCFD framework and use the TCFD recommendations to assist in preparing guidelines for existing EU legislation such as the Non-Financial Reporting Directive.
3. The EU should consider the TCFD in other relevant guidance that it evolves for the Capital Markets Union, the Shareholder Rights Directive and sustainable finance.

2. Private sector regulation

2.1 Disclosure requirements for companies

In the early part of 2016, the PRI mapped out all existing responsible investment policy – almost 300 individual policy tools or market-led initiatives, covering the relationship between finance and ESG issues. These measures can be broadly grouped into three main categories which relate to different parts of the investment chain: pension fund regulations, stewardship codes and corporate disclosure requirements.

To view the EU's complete responsible investment framework, visit the PRI's Regulation Map.

For each measure, it indicates the nature of the rule, the year of implementation, the authority responsible, whether the measure is voluntary or mandatory, and if it addresses ESG issues in isolation or in combination. It also provides commentary on the key clauses relating to ESG factors and investment.

To view the map and download the full methodology, visit the PRI website.

For further information, email policy@unpri.org

Currently EU level corporate disclosure requirements relating to environmental disclosures focus on the disclosure of non-financial, environmental matters; in particular on the impact that the company is having on the environment.

These corporate disclosure requirements are high level and accordingly, the TCFD recommendations provide a useful source of guidance to companies on how to comply with such requirements. However the TCFD recommendations go further than existing EU legislation and provide additional guidance on how companies can consider and disclose the potential financial impacts of climate change.

The TCFD recommendations may also provide a harmonising and normative effect across EU level legislation. Generally speaking, EU legislation takes the form of Directives (which must be implemented in Member States laws) or Regulations (which are directly applicable in Member States and do not require transposition - although some jurisdiction such as the UK require national laws to give effect to the regulations, for example, in respect of enforcement). These Directives and Regulations are supplemented by Level Two Regulations and guidelines from European Supervisory Authorities as well as Regulatory Technical Standards, Implementing Technical Standards and decisions, opinions, recommendations, declarations and resolutions. These different levels of EU legislation allow for variations in national implementing measures. Accordingly the TCFD recommendations may act as a common standard or reference point for companies to comply with EU level rules, or for regulators interpreting and applying high level obligations on covered entities.

EU Directive 2013/34/EU ("Accounting Directive") and EU Directives 2014/95/EU ("Non-Financial Reporting Directive") amending the Accounting Directive as regards disclosure of non-financial and diversity information by certain large undertakings and groups contain EU rules on corporate disclosures.

Relevantly, Article 19 of the Accounting Directive sets out the required content for management reports. Management reports must include a fair review of the development and performance of the undertaking's business and position including a description of the principal risks and uncertainties that the organisation faces. Where a company is particularly exposed to climate change, the nature of those climate change risks and how they could impact upon their business should be disclosed. However in practice, as companies are required to disclose "principal risks", unless an entity is particularly exposed to climate change they tend to focus instead on more prominent and immediate risks facing the business. By increasing the focus on the financial impacts of climate change, the TCFD recommendations may encourage more companies to disclose climate related risks to their business, by reframing climate related risks as a "financial" risks to the entities balance sheet and future profitability rather than "non-financial" risks which go to the company's reputation.

The obligation in Article 19 is expanded upon under a new Article 19a (inserted by the Non-Financial Reporting Directive) which requires "public interest entities" (i.e. publicly traded companies governed by a Member State, credit institutions, insurers or entities which have been declared by a member state to be a "public interest entity") having more than 500 employees to disclose ESG matters in a "non-financial statement" to be included in their management report.

This non-financial statement must contain information necessary for an understanding of the undertaking's development, performance, position and impact of its activity relating to, amongst others environmental matters. This non-financial statement shall include:

- a brief description of the undertaking's business model;
- a description of the policies pursued in relation to such environmental matters (amongst others);
- the outcome of those policies;
- the principal risks related to environmental matters (amongst others) linked to the undertaking's operations and how the undertaking manages those risks; and
- non-financial key performance indicators relevant to its business.

Where the public interest entity does not have policies relating to such matters (including environmental matters) the relevant public interest entity is required to explain why it does not do so.

According to the recitals, the environmental matters referred to include "details of the current and foreseeable impacts of the undertaking's operations on the environment, and, as appropriate, on health and safety, the use of renewable and/or non-renewable energy, greenhouse gas emissions, water use and air pollution". This clarification is important for two reasons. Firstly, it encourages in-scope public interest entities to consider the "foreseeable" impact that they will have on the environment, and so it is forward looking by nature. Secondly it covers matters such as "greenhouse gas emissions" and so requires in-scope public interest entities to consider the impact that they will have on matters relating to climate change.

In order to supplement the broad rules on disclosure of non-financial information the Non-Financial Reporting Directive grants powers to the European Commission to prepare non-binding guidelines on a methodology to report non-financial information. The consultation period for these rules has closed, but the rules themselves are yet to be published. It is understood that the European Commission will take into account the TCFD recommendations when preparing the guidelines.

However while the Non-Financial Reporting Directive and Accounting Directive address climate related matters, they do not do so from the perspective of considering financial impacts of climate change and nor do they provide particular detail as to the relevant requirements. By contrast the TCFD recommendations provide a basis for considering the financial impacts of climate change on the relevant companies as well as a holistic structure for addressing these risks.

In respect of financial disclosures, Directive 2004/109/EC ("Transparency Directive**")** on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC requires issuers admitted to trading on a regulated market in a Member State of the EU to make public annual and half yearly financial reports. These financial reports must disclose the principal risks and uncertainties the issuers face, which may include climate change related risks. In this context risks are placed into a financial context, although it is not clear that climate change related risks would constitute a "principal risk" other than in particularly sensitive industries or companies.

The TCFD recommendations therefore supplement the existing EU directives with regard to financial disclosure of climate risks. The Non-Financial Reporting Directive, with its stated aim to "enhance the consistency and comparability of non-financial information disclosed throughout the Union" provides a basis for a consistent non-financial reporting framework across the EU. Alongside this non-financial reporting regime, the TCFD recommendations, with its stated aim to achieve better transparency through creating common reporting and measurement standards, to facilitate more effective comparisons between different entities provides a basis for a common approach to financial reporting of climate risks.

The EU Accounting Directive and Non-Financial Reporting Directive are supplemented by EU schemes such as the Eco-Management and Audit Scheme ("EMAS") which provides an EU wide framework dealing with environmental management, review and audit. These schemes provide a standardised framework for judging environmental impact and sustainability across the EU. However these schemes are traditionally focused on establishing, implementing, measuring and reporting on broader environmental policies and procedures. By contrast, the TCFD recommendations establish a framework of reporting, considering and evaluating climate related financial risks and opportunities. To this end, the TCFD recommendations provide a useful tool for companies to consider how the environment will impact on their business (including indirectly through their investments), rather than addressing the impact those companies will have on the environment. The TCFD recommendations also provide a basis for considering the financial impacts of climate change and the financial risks associated therewith.

Additionally, the EU Emission Trading Scheme and specific sectoral initiatives by EU level entities such as the European Central Bank and the European Parliament aim to address sustainability and environmental issues, but do not specifically address matters relating to environmental disclosure, or the financial risks associated with climate change.

Therefore, while EU rules addressing matters of sustainability and environmental disclosure exist, the holistic approach to considering climate change-related matters (dealing with matters of corporate governance involvement in climate matters and establishing corporate strategies to address climate risks and take advantage of climate related opportunities) contained in the TCFD offers companies a more inclusive strategy to address climate change related matters, with a greater emphasis on the financial risks of climate change.

2.2 Climate change-related aspects of pension fund/investor regulation

Asset Managers

(a) Relevant requirements

Within the EU there is an increasing trend towards acknowledging the role that asset managers can have on driving sustainable behaviour by companies, as well as ensuring the efficient allocation of capital to more environmentally friendly and sustainable businesses. However in order to facilitate asset managers to perform this role, EU legislators have recognised the importance of asset managers receiving clear and transparent information about such environmental risks and opportunities, as well as the importance of taking legislative action to ensure that asset managers do in fact perform this task.

Accordingly the EU Parliament has recently adopted a new Second Shareholder Rights Directive which amends the EU Shareholder's Directive (2007/36/EU). The Second Shareholder Rights Directive will set out minimum standards to ensure that shareholders have timely access to relevant information ahead of general meetings. Amongst other amendments, the Second Shareholder Rights Directive will include a new Chapter 1b to the original Shareholder Rights

Directive which imposes obligations on institutional investors, asset managers and proxy advisers regarding engagement on shareholder matters.

Under a new Article 3g, institutional investors (dealt with in more detail under "Asset owners" below) and asset managers will need to develop and publicly disclose an engagement policy describing how shareholder engagement is integrated into their investment strategy. The policy will describe how they monitor companies that they invest in on matters such as financial and non-financial performance and risk, and environmental impact and corporate governance, as well as how they exercise voting rights and manage conflicts of interest etc. They will also need to report back on the implementation of that policy (including an explanation of the most significant votes) at least on an annual basis. Where they do not comply with these provisions institutional investors and asset managers will need disclose a clear and reasoned explanation for that non-compliance. Disclosure of these strategies is intended to drive investors awareness of how such asset managers invest, and in doing so drive asset managers accountability in respect of both financial and "non-financial" (e.g. ESG) matters.

Asset managers will also be required to annually disclose to institutional investors how their investment strategies contribute to the medium to long term performance of the assets of the institutional investor. This disclosure must also include:

- reporting on the key material medium to long-term risks associate with investments;
- portfolio composition;
- turnover and turnover costs;
- the use of proxy advisors for the purposes of engagement activities (if applicable);
- information on whether, and if so, how, the asset manager makes investment decision based on evaluation of medium to long-term performance of the investee company, including non-financial performance; and
- whether, and if so which, conflicts of interest have arisen in connection with engagements activities and how the asset managers have dealt with them.

The purpose of these provisions in the Second Shareholders Rights Directive is to encourage greater focus on long term risks and opportunities, including in the area of climate disclosures. In particular, the focus on transparency of investments and strategies by asset managers should encourage those managers to become more actively and keenly involved in the companies in which they invest. The provisions are intended to counter some of the factors that lead to an over emphasis on short term considerations when making investment decisions. As climate change risks tend to manifest over the longer term, requirements to take such forward looking views tend to focus attention on such climate related risks.

These transparency provisions for asset managers and institutional investors are also intended to align the performance of such intermediaries with the stated aims and principal objectives of their underlying investors. In particular, these measures are intended to remove any misalignment between an investor seeking sustainable, long term returns, and their agent who may be remunerated largely according to short term goals.

The Second Shareholder Rights Directive has been adopted by the European Parliament and will need to be transposed into national law by Member States by 10 June 2019. As this period is after the two year period for a "Brexit" it is unclear if these measures will be implemented in the UK before any "Brexit".

The European Parliament has also recently adopted a new Prospectus Regulation (which will replace EU Directive 2003/71/EC ("Prospectus Directive)) which expressly acknowledges in the recitals that environmental matters could constitute "specific and material risks" which should be disclosed in the prospectus. In this context, the TCFD recommendations contain a useful framework for issuers to apply in articulating these climate risks, and well as the basis for developing a strategy dealing with such risks. By specifically referring to environmental matters as one form of material risk, the Prospectus Regulation will require issuers to include a consideration of environmental risks to their business in their prospectus, thereby increasing the prominence of climate change considerations in one of the main marketing documents for listed securities. This should have flow on effects for asset managers choosing to invest in such securities as they would be required to take into account these disclosed risks and would in turn (under the Second Shareholders Rights Directive noted above) need to factor these risks into the preparation, implementation and feedback on their investment strategies. The Prospectus Regulation will enter into force on the twentieth day after their publication in the official journal (which is expected in July 2017) and is expected to apply in Member States from early third quarter 2019.

Generic risk disclosure statements are also required across a range of fund documentation. Arguably, and particularly in climate sensitive areas, these risk disclosure statements should include a disclosure of the longer term financial risks posed by climate change. Relevantly generic risk disclosure requirements are contained in:

- Article 23 of the Regulation (EU) 2015/760 on European Long Term Investment Funds ("ELTIF Regulation") which requires an ELTIF to disclose in its prospectus the risks relating to an investment in the fund, and in particular how the ELTIF's investment objectives and strategy qualify the fund as long term in nature.
- Article 23 of the Alternative Investment Fund Manager's Directive 2011/61/EU ("AIFMD") which requires alternative investment fund managers to make available to investors prior to them investing in the alternative investment fund, a description of their investment strategy and objectives of the alternative investment fund as well as associated risks.
- Article 69 of the Undertakings for Collective Investments in Transferrable Securities Directive 2009/65/EC ("UCITS") which requires the prospectus for a UCITS to include information necessary for investors to make an informed judgement of the investment and in particular of the risks attaching to that investment.
- Regulation (EU) 345/2013 on European Venture Capital Funds ("EuVECA") which requires managers of "qualifying venture capital funds" to disclose the risk profile of the qualifying venture capital fund, as well as the risks associated with the assets in which the fund may invest".

While these requirements do not expressly mention climate change related risks, failure to consider or disclose the long term impacts of climate change (and in particular the risks thereof) risks breaching these requirements. Importantly, as these risk requirements are contained in public document, a failure to include the risks of climate change where relevant to an investors decision could potentially found a civil action by private individuals.

Environmental risk disclosures are also required under EU Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance based investment products (PRIIPs Regulation). As an EU regulation, PRIIPS will apply directly in member states when it comes into force (its entry into force has been delayed until January 2018).

The PRIIPs regulation applies to investments for which value fluctuates, based on exposure to reference values or the performance of assets not directly purchased by the investor. In general terms, PRIIPs are either a structured financial product (such as debt securities where the amount payable is determined by reference to fluctuations in a reference rate or value) or insurance-based investment products (such as unit linked policies). The PRIIPs Regulation will require issuers of PRIIPs to also issue a Key Information Document (KID) to retail investors before issuing such products to them.

The KID is required to contain information relating to specifics of the PRIIP including, amongst other things, whether the product has any specific environmental or social objectives. Further guidance will be issued specifying the procedures used to establish whether a PRIIP has a specific environmental or social objective. The requirement to disclose this information in a KID is intended to increase transparency in respect of environmentally responsible investments, acknowledging the increasing demand for such sustainable investments.

The PRIIPs Regulation is intended to be reviewed in four years' time with a view to assessing, amongst other things, whether a label for social and environmental investments should be introduced. This would have the effect of producing a form of standardisation across investment products with a stated environmental or social aim.

Finally, general EU requirements relating to the provision of financial services are also, arguably, broad enough to require a consideration and disclosure of climate change-related risks. For example, under the Markets in Financial Instruments Directive II 2014/65/EU (MiFID II), investment firms which manufacture financial instruments will need to identify all relevant risks relating to that product. Where an industry is particularly susceptible to climate related risks, this would need to be disclosed.

Similarly, firms providing advice on financial products are required to notify of significant risks relating to those products and to consider the suitability and appropriateness of those investments to the individual having regard to the individual's circumstances, financial situation and investment objectives. While this suitability requirement does not specifically refer to an obligation to consider climate change-related risks, a failure to consider such risks where they are relevant would be a potential breach of the suitability obligation.

The breadth of EU level requirements are therefore arguably broad enough to already require disclosure of climate change related risks. As awareness of the financial impact of these climate related risks increases, it will become riskier for asset managers and financial product issuers to fail to disclose such climate related risks. The TCFD recommendations will drive such awareness and can foster expectations in this regard; simultaneously making it harder for relevant entities to fail to consider or disclose such risks, while also making it easier for those entities to disclose climate related risks by normalising and standardising disclosure expectations.

(b) Relevant guidance and examples of industry practice

The PRI Reporting Framework is the largest global reporting project on responsible investment, developed with investors, for investors. Asset manager signatories are required to report on their responsible investment activities annually. In 2017, 469 asset managers within the EU reported on the PRI's voluntary climate change indicators. 62% of these see climate change as a long-term trend that will impact on investment decisions.

(c) Intersection and compatibility with TCFD recommendations/implementations strategies

The Second Shareholder Rights Directive focuses mainly on transparency of shareholder interaction. However it expressly recognizes in the recitals that the intention of encouraging shareholder interaction is to improve the financial and non-financial performance of the underlying companies, and specifically acknowledges the role of the Principles of Responsible Investment in this regard. The rules in the Second Shareholder Rights Directive would establish a framework structure of disclosure. The TCFD recommendations could then be used to provide further detail to this framework and to inform and guide asset managers in developing policies that comply with the requirements of the Second Shareholders Rights Directive.

Similarly, while the PRIIPs measures will increase the transparency of products within its scope, they fall short of the approach adopted by the TCFD. In particular, the TCFD recommendations would also encourage such products to factor in the costs and risks that climate change represents for these products (regardless of whether they are expressed to pursue an environmental objective).

Finally, the TCFD recommendations may have a normative effective in driving a consideration of climate related risks, such that these climate related risks are more commonly caught under general risk reporting and risk consideration requirements.

Asset Owners

(a) Relevant requirements

The Second Shareholders Rights Directive, noted above, will also impose obligations on institutional investors. Institutional investors are defined under the Second Shareholders Rights Directive to mean undertakings carrying out life assurance or reinsurance and institutions for occupational retirement provision. As we have already noted above, institutional investors will be subject to the rules set out in the proposed Article 3g of the Second Shareholders Rights Directive to publicly disclose an engagement policy.

Institutional investors will also need to disclose how their equity investment strategy is consistent with the profile and duration of their liabilities. When investing through an asset manager, the institutional investor will also need to disclose information regarding arrangements in place with the asset manager, in particular relating to how the institutional investor incentivizes the asset manager to focus on medium to long-term performance and to take into account non-financial performance of companies in which the asset manager invests. Where the institutional investor invests through an asset manager and the asset manager implements the engagement policy on behalf of that institutional investor, the institutional investor must provide directions to where voting information has been published by the asset manager.

These obligations are intended to realign investor interest and to instead focus on longer term risks and opportunities, as well as matters traditionally considered as "non-financial" that could potentially impact their investments. Institutional investors often have large capital pools and can effect change in the companies they invest in, or the asset managers they employ, due to their large investment portfolios. The Second Shareholder Rights Directive acknowledges that current rules too often encourage such institutional investors to focus solely on short-term financial returns. By requiring these institutional investors to align their strategies with longer term aims, and to be transparent in the impacts that their investment policies may have, the Second Shareholder Rights Directive seeks to generate more informed investments by the underlying investors in such institutional investors. In particular, disclosure on long term risks and non-financial matters will hopefully refocus attentions on some of the longer term climate change-related risks facing both investors and companies.

Institutional investors who are occupational pension funds are also subject to the Institutions for Occupational Retirement Provision Directive (EU) 2016/2341 ("IORPS II"). IOPRS II will introduce a number of new requirements for in-scope occupational pension schemes ("IORPs") to take into account ESG factors in both their investment and governance procedures. In particular:

- under IORPS II, Member States are required to allow IORPS to take into account the potential long term impact of their investment decisions on ESG factors;

- IORPs will be required to have in place effective systems of governance which provide for sound and prudent management of their activities which must include a consideration of ESG factors related to investment assets in investment decisions;
- IORPs must have in place risk management systems which cover, amongst other things, ESG risks relating to the investment portfolio and the management of that portfolio;
- under IORPS II, IORPs are required to carry out and document an "own risk assessment". Where ESG factors are considered in investment decisions, this risk assessment must take into account, amongst other things, an assessment of new or emerging risks (including risks relating to climate change, use of resources and the environment, social risks and risks related to the depreciation of assets due to regulatory change); and
- prior to a member joining a pension scheme the IORPs must provide information to the person. That information must include information on whether and how environmental, climate, social, and corporate governance factors are considered in the investment approach.

These requirements are indicative of the holistic approach that large institutional investors are being encouraged to take with regards to climate and environmental risks. In this regard, IORPs II requires IORPs to consider climate and environmental matters in their governance, risk and investment decisions. By fostering an institutional approach to such environmental and climate matters, IORPs II is intended to align the longer term environmental trends, with the longer term investment periods of such IORPs. In doing so, IORPs II expressly acknowledges the role of the UN PRI and notes how important these principles are in respect of investment policy and risk management systems of IORPs. Each of the four overarching TCFD recommendations will be relevant to IORPs in deciding how to involve senior management in climate related risks, how to prepare a strategy which deals with these climate related risks, how to manage these risks, and finally, how to judge performance against climate related risks and opportunities.

The European Insurance and Occupational Pension's Insurance Authority ("EIOPA") has acknowledged, in its Financial Stability Report published in December 2016, the potential disruption that climate change will cause in the insurance industry, in particular requiring re-pricing of carbon related assets which could threaten portfolios that hold such assets. While this does not impose any direct requirements on insurance undertakings, given the rules set out under the Solvency II Directive 2009/138/EC (Solvency II) and its related acts, insurance undertakings will need to carefully consider how their prudential requirements and technical reserves are calculated having regard to such climate related risks. This is one example of how climate-related risks can be caught by general rules relating to pricing and consideration of risks and opportunities.

(b) Relevant guidance and examples of industry practice

As described in the section above, the PRI Reporting Framework is the largest global reporting projects on responsible investment, developed with investors, for investors. Asset owner signatories are required to report on their responsible investment activities annually. In 2017, 158 asset owners in the EU reported on the PRI's voluntary climate change indicators. 78% see climate change as a long-term trend that will impact on their investment decisions. 46% of asset owners seek integration of climate change by companies, 52% use carbon footprinting, 21% use scenario testing and 17% have an integrated asset allocation strategy.

(c) Intersection and compatibility with TCFD recommendations/implementations strategies

Again, while these directives establish a framework requirement for asset owners to consider and disclose long term risks (including climate risks), they provide limited detail as to how those risks should be considered or the best ways to address such risks. The TCFD can supplement these framework requirements and provide more targeted and detailed guidance to such asset owners, allowing them to prepare relevant, considered disclosures and policies for their end investors.

Additionally, EU rules on valuation of assets, liabilities and capital reserves can, indirectly impact how institutions consider and price climate risk. Insurance undertakings are doubly exposed to these climate risks as their future insurance liabilities are often tied to the physical risks of climate change while at the same time the value of the assets they hold in respect of such insurance liabilities are subject to transition risks that may impact the value of those assets. The TCFD recommendations provide clear, thematic recommendations on how asset owners can consider these climate risks and opportunities, and to put in place policies to manage the relevant risks and take advantage of any climate change opportunities.

3. Conclusion

Particularly for asset managers and institutional investors, EU rules will increasingly require entities to assess climate-related risks to assets and businesses, as both financial and non-financial factors.
The TCFD recommendations are clearly consistent with these development requirements, and could be expected to materially assist both governments and companies in adapting to them.

Appendix 1: Summary of EU climate change commitments

Over 146 parties have ratified the Paris Agreement. Its central aim is to strengthen the global response to climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The goal is feasible, but only if emissions peak by 2020 at the latest. The Paris Agreement requires all parties to put forward “nationally determined contributions” (NDCs), including a requirement to report regularly on their emissions, and on their implementation efforts. In 2018, parties will take stock of the collective efforts to progress towards the goal set in the Paris Agreement. Climate disclosure supports the Paris Agreement goals and NDCs, by enabling company and investor management of material climate-related risks and opportunities.

The EU issued its first NDC jointly with its Member States in March 2015. Importantly, certain Member States have issued their own independent NDCs and plans to achieve them. The EU, and its Member States, have jointly committed to a binding target of an "at least 40% reduction in greenhouse gas emissions by 2030 compared to 1990".

The first NDC notes the following sectors and source categories which will be subject to mitigation focus and activities:

SECTOR	SOURCE CATEGORIES

Energy	▪ Fuel Combustion
	  ▪ Energy industries
	  ▪ Manufacturing industries and construction
	  ▪ Transport
	  ▪ Other sectors
	▪ Fugitive emissions from fuels
	  ▪ Solid fuels
	  ▪ Oil and natural gas and other emissions from energy production
	▪ CO2 transport and storage

Industrial processes and product use	▪ Mineral industry ▪ Chemical industry ▪ Metal industry ▪ Non-energy products from fuels and solvent use ▪ Electronic industry o Product uses as substitutes for ODS ▪ Other product manufacture and use ▪ Other
Agriculture	▪ Enteric fermentation ▪ Manure management ▪ Rice cultivation ▪ Agricultural soils ▪ Prescribed burning of savannas ▪ Field burning of agricultural residues ▪ Liming ▪ Urea application ▪ Other carbon-containing fertilisers ▪ Other

SECTOR	SOURCE CATEGORIES
Waste	▪ Solid waste disposal ▪ Biological treatment of solid waste ▪ Incineration and open burning of waste ▪ Wastewater treatment and discharge ▪ Other
Land Use, Land-Use Change and Forestry set out in Decision 529/2013/EU	▪ Afforestation, reforestation ▪ Deforestation ▪ Forest management ▪ Cropland management ▪ Grazing land management ▪ Or equivalent land-based accounting using UNFCCC reporting categories ▪ Other categories/activities elected by the EU and its Member States as Parties to the Kyoto Protocol and its Doha Amendment.

The EU has been criticised for failing to include meaningful and ambitious commitments in its first NDC and not taking any pre-2020 actions. However, the EU recently confirmed that it is collaborating with China and Canada to forge a collective leadership on climate change.

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About the Principles for Responsible Investment

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. The principles have over 1,700 signatories globally, representing over US$72 trillion in assets under management.

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