THE INVESTMENT ASSOCIATION

FINANCING TRANSITION

CLIMATE AND NATURE POLICY REPORT

July 2024

ABOUT THE INVESTMENT ASSOCIATION (IA):

The Investment Association champions UK investment management, supporting British savers, investors and businesses. Our 250 members manage £8.8 trillion of assets and the investment management industry supports 126,400 jobs across the UK.

Our mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital.

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs.

The UK is the second largest investment management centre in the world, after the US and manages 37% of all assets managed in Europe.

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INTRODUCTION

This report outlines the Investment Association's (IA) approach to climate change and nature policy, with a focus on how we engage with policymakers, regulators and other stakeholders on behalf of our members and their clients. We aim to support the development and implementation of effective policies that can accelerate the transition to a low-carbon and climate-resilient economy, while also protecting and enhancing the natural environment and biodiversity.

To achieve these ambitious goals, a significant mobilisation of capital is now needed. We must ensure that the financial sector can channel funds towards climate-friendly and nature-positive investments, while also managing the risks and opportunities arising from the transition and physical impacts of climate change.

We welcome the efforts made since COP26 to introduce robust and consistent standards on sustainability disclosure. These initiatives can help improve the quality and comparability of information on climate and nature-related risks and opportunities across the investment chain and enable better decision-making and accountability.

We also recognise that there is still a lack of global alignment and harmonisation on these standards, which creates confusion and complexity for investors and issuers. We urge policymakers and regulators to work together to ensure a coherent and coordinated approach to sustainability disclosure, and to avoid creating unnecessary burdens or barriers for cross-border investment.

We have published this Climate and Nature Policy Report as part of our ongoing commitment to further action and have identified four core pillars through which our industry is able to contribute to positive climate action:

Working with asset owners, investors and savers to make informed choices

Supporting the integrity, quality and consistency of climate and sustainability disclosures

Working with UK government to support the UK's net zero ambition and to lead international efforts to bring about global and systemic change

As a business and employer, here at the IA, we look to our own corporate operations and work towards carbon neutrality.

OUR COMMITMENTS

- The IA will work to promote understanding among policymakers of independent and collective action on environmental factors, favouring a policy environment which recognises the range of client views, investment strategies and objectives within the industry.
- The IA will continue to support the industry as it implements the anti-greenwashing rule and the Sustainability Disclosure Requirements and investment labels regime to help consumers make more informed investment choices.
- The IA will support investment managers to meet their climate- and nature-related financial disclosure requirements. This will include working to improve the underlying data used in TCFD-aligned disclosures and an evolution of disclosure rules to better incorporate ISSB, TNFD and TPT standards and frameworks.
- The IA will foster dialogue between investment managers and asset owners on material environmental priorities, including nature and biodiversity.
- The IA will support the creation of credible, comparable and decision-useful environment-related financial disclosures for the real economy, including ISSB standards and transition plans. We will encourage policymakers working at different stages of the investment chain to ensure standards are meeting the needs of investors.
- The IA will engage with international policymakers to push for greater alignment and interoperability of international sustainability standards, including support for convergence of ISSB and ESRS.
- The IA will support the need for a coherent regulatory framework of ESG data and rating providers to ensure investor protection, transparency and integrity in the sustainability and responsible investment market.
- The IA will encourage the development and acceptance of a range of approaches to scenario analysis to explore risks and opportunities in climate-related financial disclosures. This will include participation in the FCA-PRA Climate Financial Risk Forum.
- The IA will support and advocate for consistency and certainty in real economy policy to catalyse green investment opportunities. We will place a particular focus on the sectors and technologies that are important to the energy transition in the UK and globally.
- The IA will seek to enhance public-private cooperation to enable greater use of blended finance and other models of transition finance.
- The IA will support the development of natural capital markets in the UK. This will include the further development of carbon compliance markets to send a more effective price signal to market participants, and the pursuit of a policy framework which promotes ecosystem services as an asset class.
- The IA will support meaningful sustainability integration across all asset classes, exploring how to achieve high standards of engagement to provide necessary support and challenge on financially material factors while maintaining a holistic approach to asset allocation.
- The IA will remain a carbon neutral company and will seek to identify ways in which we can reduce our emissions, while offsetting remaining emissions where necessary.

WORKING WITH ASSET OWNERS, INVESTORS AND SAVERS TO MAKE INFORMED CHOICES

Investment managers have a responsibility to act in the best interests of clients and to generate long-term returns. This requires the consideration of material risks in investment processes and judgements to be made about the relative level of risk and return that is needed to achieve their investment goals.

Addressing climate risk is among the most important actions the investment management industry can take to act in the best interests of our clients. We do not face a choice between economic growth and climate action. Instead, this is a choice for long-term, resilient economic growth that takes account of the risks and opportunities posed by climate change to the financial system.

Our industry's clients are individual retail savers and institutional asset owners such as pension funds, insurers, charities and governments. Their investment objectives are typically financial, for instance having enough money to live on in retirement or meeting their liabilities, but can also include non-financial elements, such as to invest in companies or projects that have a specific social or environmental benefit or that "do no harm".

Increasing numbers of clients are asking for both information on climate change and for products to deliver on their particular investment goals. The development of new products is being accompanied by intensive efforts to provide clients with the necessary information to make informed decisions as to whether their savings are aligned with their sustainability preferences and goals.

This is an edited extract from the IA Position on Climate Change.

Investors have a responsibility to act in the best interests of their clients and beneficiaries. This means delivering on their long-term financial objectives, while also considering how environmental factors will affect future financial returns. Investors must work closely with asset owners and savers to understand their preferences and goals regarding climate change and sustainability.

Investors provide clear and consistent information on how they integrate climate-related risks and opportunities into their investment processes, products, and outcomes. They also offer a range of solutions that cater to different levels of ambition and appetite for climate-aligned investing. By doing so, investors aim to empower asset owners, savers, and society at large to make informed choices about their savings and their future.

The UK has sought to show leadership on climate change through the development of a framework for sustainable finance which aims to provide clear and comparable information to investors and savers on the environmental and social objectives of their investments. The IA has engaged constructively with the efforts by regulators and policymakers to create rules and standards that help savers make informed choices when investing sustainably.

NET ZERO COMMITMENTS

Since the 2015 Paris Agreement, a network of collaborative, investor-led global groups have emerged to demonstrate common support for the treaty's goals and establish good practice and shared knowledge around how to align portfolios with the transition to net zero. These groups involve both investment managers and the institutional asset owners whose money they look after. The Net Zero Asset Managers initiative was subsequently launched for investment managers and asset owners are also able to join the Net Zero Asset Owners Alliance which had been launched in 2019 at the UN Secretary-General's Climate Action Summit.

The aims of these net zero commitments are not, however, achievable without clear and consistent policy signals from governments. The investment industry needs to have confidence that the transition pathways of different sectors and regions are aligned with the global climate goals. The IA has advocated for more action and information from the UK Government, such as setting out sector-specific roadmaps, providing incentives and regulations for low-carbon technologies and practices, and enhancing climate-related disclosures and reporting standards.

SUSTAINABLE INVESTMENT LABELS

Investment managers are committed to bringing clarity, transparency and consistency to the way industry describes and delivers sustainable and responsible investment products to clients. This commitment to client outcomes has informed the IA's engagement on Sustainability Disclosure Requirements (SDR). We support a retail market labelling system and a clear disclosure regime that ensure standards are high and that consumers can have confidence in the market.

We have engaged constructively with the FCA through the policy development process of SDR and are continuing that active engagement with both industry and the FCA as firms look to implement the various SDR policy measures.

CLIMATE-RELATED DISCLOSURES

In the past year we have participated in the Transition Plan Taskforce's working group to produce transition plan guidance for investment managers. The working group sought to align guidance for investment managers and asset owners, with close work between members of both working groups. The IA advocated specifically for more detailed guidance on the sensitive and complex topic of fiduciary responsibility.

One of the key outcomes of the Transition Plan Taskforce's work is the development of a transition plan template that can help companies and investors communicate their climate strategies and actions in a consistent and comparable way. The template covers various aspects of a transition plan, such as governance, targets, metrics, scenario analysis and reporting. We support the use of this template to enhance transparency and accountability on climate change across the investment chain. We also believe that this template can provide valuable data for our clients, who increasingly demand more information on how we incorporate climate considerations into our investment processes and products.

THE DATA LANDSCAPE

While we support the development of sustainability standards and disclosure frameworks that can enhance the quality and comparability of climate-related information, we also recognise that there are significant challenges and gaps in the current data landscape. As investors, our members rely on accurate, consistent and comparable data on climate change to inform investment decisions and stewardship activities. Investors often face difficulties in accessing and using this data due to issues such as lack of coverage, standardisation, verification and timeliness. These issues limit the ability to assess the climate risks and opportunities of different companies and sectors, as well as to measure and report on the climate impact of portfolios.

Improving the availability and quality of climate-related data is essential for the transition to a low-carbon economy. We urge policymakers, regulators, standard-setters and companies to work together to address the data challenges and ensure that investors have the information they need to allocate capital efficiently and effectively. We support the development of a robust and consistent regulatory framework for environmental, social and governance ratings, which can help investors to assess the sustainability performance and impact of companies and funds. ESG ratings are an important tool for investors who want to integrate ESG factors into their investment decisions and stewardship activities, as well as to communicate their ESG approach to their clients and beneficiaries.

SUSTAINABILITY STANDARDS

Investors have a strong interest in consistent and high-quality sustainability standards that enable them to assess the performance, risks and opportunities of companies across different markets and sectors. We have welcomed the establishment of the International Sustainability Standards Board (ISSB) as a global body that will set sustainability reporting standards based on the needs and expectations of investors and other stakeholders. These standards will provide greater transparency and comparability for investors who are increasingly incorporating environmental, social and governance factors into their investment decisions and stewardship activities. By aligning with the ISSB standards, UK companies will be able to communicate their sustainability performance and impact more effectively to their shareholders, allowing investors to better inform their clients.

Investors are most interested in sustainability factors that have a material financial outcome for their clients. These factors can influence the cash flows, profitability, valuation and reputation of companies, as well as their exposure to regulatory, legal, operational and reputational risks. Investors need reliable and comparable information on these material sustainability factors to make informed decisions about the allocation of capital, the engagement with investee companies and to report to their clients. The ISSB standards will help to provide this information by focusing on the materiality principle and ensuring that sustainability reporting reflects the financial implications of sustainability issues for companies and investors.

For these standards to deliver a truly global baseline for reporting, it is critical that that the UK Government does not seek to depart from the ISSB standards unless there are very limited UK specific issues that require consideration. Divergence would risk regulatory fragmentation and make it difficult for investors to effectively assess sustainability-related risks and opportunities globally.

The IA will work to promote understanding among policymakers of independent and collective action on environmental factors, favouring a policy environment which recognises the range of client views, investment strategies and objectives within the industry.

The IA will continue to support the industry as it implements the anti-greenwashing rule and the Sustainability Disclosure Requirements and investment labels regime to help consumers make more informed investment choices.

The IA will support investment managers to meet their climate- and nature-related financial disclosure requirements. This will include working to improve the underlying data used in TCFD-aligned disclosures and an evolution of disclosure rules to better incorporate ISSB, TNFD and TPT standards and frameworks.

The IA will foster dialogue between investment managers and asset owners on material environmental priorities, including nature and biodiversity.

INTEGRITY, QUALITY AND CONSISTENCY IN CLIMATE DISCLOSURE

The investment management industry needs meaningful, consistent and comparable information across all asset classes to make well-informed investment decisions and to be assured of quality of the data that we in turn publish for clients. Accurate disclosure by investee companies of data relating to their management of material risk factors (which may include risks which are social in nature, governance-related, climate-related or pertaining to any other form of environmental risk) helps investors to assess materiality and manage the risks arising from climate change in our investment processes.

We must recognise that the nature of an economy-wide transition to net zero means that investment management firms are on a journey to develop more sustainable business practices and to ensure that all material risks are fully incorporated into their investment processes. In line with regulatory expectations, we are committed to work to improve the reporting of direct (scope 1) and indirect (both scope 2 and 3) emissions across the value chain.

In considering how best to measure the environmental impact of our portfolios, how to disclose this to our clients, and how to market funds which support climate-related objectives we must show the public that the investment management industry can be trusted on climate change. If climate change is a defining issue of this era of investing, then how we meet that challenge will be a crucial test of the industry's integrity. If we move too fast or fail to deliver on bold promises then the suspicion of "greenwashing" – fairly or not – will undermine what we are all trying to achieve.

This is an extract from the IA Position on Climate Change.

Since the UK hosted COP26 there has been an intense focus on developing a framework to ensure, quality and consistency in climate disclosure. This package – under the banner of making the UK the world's first net zero-aligned financial centre – has included the development of transition plan standards, consideration of a UK green taxonomy, and a process for developing sustainability standards. It has built on the work of the Taskforce for Climate-related Financial Disclosures (TCFD) and sought to encourage new standards including the Taskforce on Nature-related Financial Disclosures (TNFD).

Progress has been mixed and each initiative is now at a stage where policy decisions must be taken around the implementation of sustainability disclosure requirements across the economy. The IA has been a consistent supporter of credible, comparable and decision-useful environment-related financial disclosures for the real economy to better inform investment decisions and incorporate consideration of material risks and opportunities. As we approach the next phase, it is essential to recognise that environmental challenges do not respect national boundaries and that an appropriate response will require alignment between leading economies.

TRANSITION PATHWAYS

The IA has supported the development of transition plans to communicate how companies and sectors intend to align their activities with the net zero transition and the Paris Agreement. One of the main barriers to developing credible transition strategies, particularly in hard-to-abate sectors, is the lack of clear and consistent policy signals and support from the Government on how these sectors can achieve net zero emissions. Without a credible sectoral pathway, it is difficult for investors and businesses to assess the risks and opportunities of investing in low-carbon solutions, and to align their strategies and plans with long-term climate goals.

We also recognise that there is no one-size-fits-all approach to achieving an orderly transition, and that different pathways and strategies may be appropriate for different industries and contexts. Any standards or frameworks for transition plans should allow for flexibility and innovation and avoid being overly prescriptive or rigid.

One area where flexibility is particularly important is scenario analysis, which is a key tool for assessing the potential impacts of climate change on business models and financial performance. Scenario analysis involves making assumptions and projections about various factors, such as future policies, technologies, consumer preferences, and physical risks. Given the uncertainty and complexity of these factors different approaches may yield valid results and insights. We support the development and acceptance of a range of approaches to scenario analysis that can capture the diversity and dynamism of climate-related financial disclosures. We also welcome the opportunity to participate in the FCA-PRA Climate Financial Risk Forum, which aims to facilitate dialogue and collaboration among regulators, industry, and academia on climate scenario analysis and other topics.

FIDUCIARY RESPONSIBILITY

Investors have a fiduciary responsibility to act in the best interests of clients and beneficiaries, who entrust them with their savings and pensions. This fiduciary responsibility is rooted in ensuring long-term returns for clients and implies that investors should consider the long-term risks and opportunities associated with climate change and other sustainability issues, which can have significant and lasting effects on the financial performance and viability of companies and sectors.

By taking these issues into account, investors can identify and manage the risks and opportunities that arise from the transition to a low-carbon economy, the physical impacts of climate change, and the social and environmental impacts of their investments. By doing so, investors can protect and enhance the value of their assets, contribute to the mitigation and adaptation of climate change, and meet the expectations and preferences of their clients and beneficiaries.

The Investment Association has previously called for clarity from policymakers on the law as it relates to fiduciary duty and investment decisions which take account of sustainability and climate change. We welcomed the publication of a report earlier this year by the Financial Markets Law Committee on the fiduciary duties of pension fund trustees. The report offered a clear opinion that consideration of climate-related factors is compatible with this fiduciary responsibility and policymakers should now ensure that this situation is not further confused by additional guidance or instructions.

Policymakers can support this fiduciary responsibility by creating a policy environment that provides clear and consistent alignment of policy objectives and incentives across the investment chain. Consistent sustainability requirements are vital for ensuring that asset owners, investment managers and companies are aligned on the transition to a low-carbon economy. Policymakers concerned with different stages of the investment chain, from corporate reporting to the duties of pension trustees, must ensure that sustainability standards are meeting the information needs of investors. This information is crucial for making informed investment decisions and fulfilling fiduciary responsibilities to clients and beneficiaries.

INTERNATIONAL ALIGNMENT

Investors need reliable, comparable and consistent information to assess the environmental performance of companies across different markets and jurisdictions. This information is essential for fulfilling their fiduciary responsibilities, meeting the expectations of their clients and beneficiaries, and supporting the transition to a low-carbon and sustainable economy.

The IA has been a consistent supporter of the International Sustainability Standards Board (ISSB) as it aims to address this challenge and establish a global baseline for sustainability disclosure. The ISSB, which will build on the existing work of other sustainability frameworks and initiatives such as the TCFD, has the potential to provide a common language and a consistent approach for sustainability disclosure, enhancing the comparability and usability of sustainability information for investors.

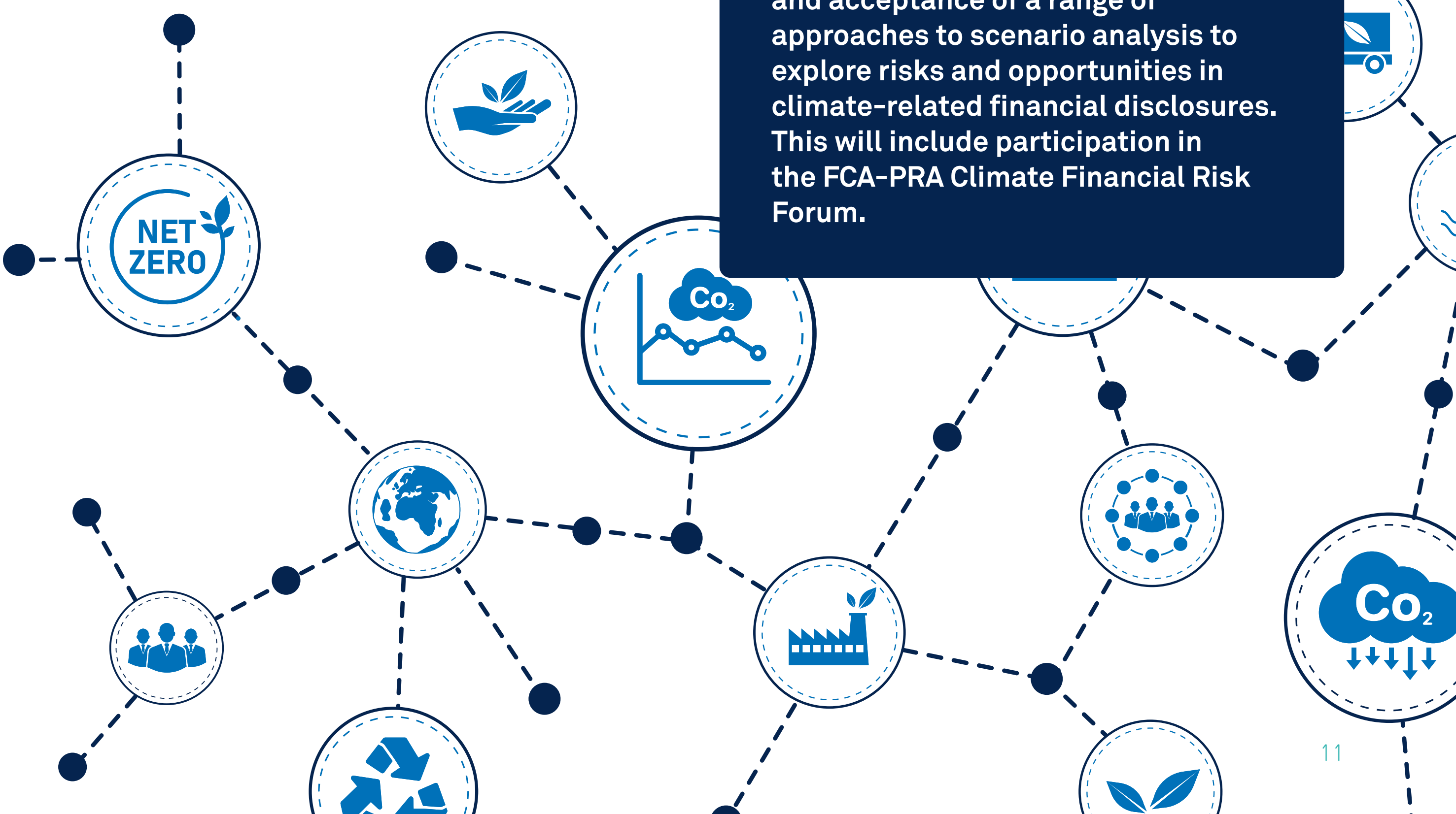
Investors strongly support the establishment of the ISSB and urge policymakers to endorse and adopt its standards as they become available. The UK should continue to play an active role in the development and implementation of the ISSB and encourage other countries to follow suit. By doing so, the UK can enhance its position as a global leader in green finance and sustainability.

The IA will support the creation of credible, comparable and decision-useful environment-related financial disclosures for the real economy, including ISSB standards and transition plans. We will encourage policymakers working at different stages of the investment chain to ensure standards are meeting the needs of investors.

The IA will engage with international policymakers to push for greater alignment and interoperability of international sustainability standards, including support for convergence of ISSB and ESRS.

The IA will support the need for a coherent regulatory framework of ESG data and rating providers to ensure investor protection, transparency and integrity in the sustainability and responsible investment market.

The IA will encourage the development and acceptance of a range of approaches to scenario analysis to explore risks and opportunities in climate-related financial disclosures. This will include participation in the FCA-PRA Climate Financial Risk Forum.



SUPPORTING UK POLICY ACTION TO ACHIEVE NET ZERO AND SET A GLOBAL EXAMPLE

We support the UK's ambition to be the world's first Net Zero-aligned Financial Centre, embodied in the introduction of mandatory climate-related disclosures across the UK economy aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), the development of a UK Green Taxonomy, and the Sustainability Disclosure Requirement (SDR).

We should always seek to build a more resilient and sustainable global financial system. The UK must demonstrate global leadership in acting decisively to meet the Paris Agreement, utilising its seat at the G7 and G20, and working in international bodies such as the International Sustainability Standards Board to encourage global cooperation and coherence in sustainability standards around the globe.

The UK's ambition to be seen as a global sustainable finance leader is also central to ensuring UK competitiveness in a more sustainable world. Action towards net zero emissions and limiting the damage from climate change must be at the heart of the UK's long-term plan for economic growth. As long-term investors, we seek to channel capital on behalf of our clients to companies that are deemed likely to generate sustainable long-term value. Equivocal or vague policy signalling will make it more difficult to assess sector pathways to decarbonisation in a UK context. Clear and actionable signals now from the UK Government on the nature and speed of the transition must be provided to allow investment managers to price this into their investment processes effectively, opening new investible opportunities and allowing them to support investee companies and infrastructure projects, among other investments, to make the transition.

This is an edited extract from the IA Position on Climate Change.

The UK has good reason to promote its track record on decarbonisation. Official national statistics on UK territorial greenhouse gas emissions show that total greenhouse gas emissions in 2022 were 50% lower than they were in 1990. However, in its report outlining the key outcomes from COP28 and suggesting next steps for the UK, the Climate Change Committee noted "a perception of slowing UK climate ambition by members of the international community." Domestically, the Government has continued to face criticism of its net zero strategy, and in May, courts found that the UK's net zero strategy was unlawful because it contained insufficient detail on how decarbonisation policies would be achieved.

Ultimately the legal responsibility for transition in the UK rests with the Secretary of State. The public sector must therefore take responsibility if it wishes to achieve its treaty and Climate Change Act responsibilities. However, the public sector cannot act alone. It needs to collaborate with industry, the finance sector, and investors to create a supportive ecosystem for economic transition that can leverage the expertise, innovation, and capital of the private sector.

UK CREDIBILITY ON CLIMATE CHANGE

To support the Government and explore the role that the UK financial sector can play in the global transition, the IA applied for observer status to the UN Framework Convention on Climate Change (UNFCCC), the body which oversees international climate change negotiations. This status was granted during COP28 in Dubai, where the IA observed negotiations and side events, and we will now seek to participate in year-round UNFCCC activity.

The IA's engagement in this process will focus on preserving the UK's credibility on climate change. While there are areas in which the UK does demonstrate leadership – including through initiatives like the Transition Plan Taskforce and support for the Taskforce on Nature-related Financial Disclosure – our engagement will stress that perception matters and encourage UK policymakers to consider how domestic announcements may be perceived overseas.

THE ENERGY BACKBONE

The UK can set an international example by focusing on delivery of a domestic 'backbone' for energy transition in the UK, and by demonstrating how a just transition can be achieved in a domestic setting.

In response to the Government's energy strategy and policy statement, which outlines the Government's vision and priorities for the energy sector in Great Britain, the IA argued that the strategic priorities and desired policy outcomes for the energy sector should more clearly state how private sector investment in infrastructure can be achieved. Such a priority is essential to ensure that all relevant bodies, including the National Energy System Operator (NESO), are equipped with the skills and resources necessary to engage with investors and the finance sector more broadly.

The UK should seek to capitalise on the continued political consensus that exists on decarbonisation to provide longer term certainty to investors. One means of achieving this would be to equip the NESO with clear long-term mandates to drive policy delivery. These mandates should be agreed on a cross-party basis and with parliamentary approval. These mandates must be sufficiently flexible to allow the NESO to be agile in delivery and properly consider the role of new and emerging technologies.

ENHANCING PUBLIC-PRIVATE DIALOGUE

In the past year, the IA has joined a group of organisations to advocate for the creation of a national net zero investment plan. Stakeholders including WWF, the thinktank E3G, industry bodies including the CBI and UK Finance have argued for a more systematic approach to helping the country transition to net zero without adding undue burdens on households and remove barriers to the private finance needed to deliver green growth in the UK economy. Investors have been concerned that there may be a shortfall between the UK's legally binding net zero target and the policy measures in place to achieve an orderly transition in the assets in which they invest. For the UK to attract investment there needs to be a solid pipeline of opportunities for investors to support and grow the economy.

We have held meetings with Government Ministers and officials to set out what such a plan would do. The IA's priority has been to enhance public-private dialogue around efforts to decarbonise the economy and to achieve a clearer sense of policy pathways. In support of this objective, the IA this year sponsored an independent thinktank report which proposes a new partnership between the public and private sectors to finance the transition to net zero. The report, 'Making markets: The City's role in industrial strategy', was published by the IPPR and the Green Finance Institute and argues that the financial sector can play a key role in supporting the UK's industrial strategy and green recovery by aligning its activities with national climate targets and providing innovative financial solutions. The report also calls for more public investment to catalyse private capital and reduce the risks and costs of green projects.

TRANSITION FINANCE

The IA has been a consistent supporter of the ISSB sustainability standards, and we support the full adoption in the UK of the climate-related IFRS S2. Building on the UK's efforts at COP26, we will encourage policymakers to consider how they can better consider the needs of investors when developing initiatives, including transition plans, which aim to mobilise private finance.

A good quality transition plan is not only relevant for the provision of transition finance, but also for the overall sustainability and resilience of a business in the context of the low-carbon transition. It is important that capital markets should remain able to provide finance for the transition which is dynamic and responsive to the evolving evidence base and policy landscape.

In the 2023 Green Finance Strategy, the Government announced its intention to look systematically at how to ensure new transition finance instruments are developed and structured with high integrity, and how the UK can become recognised as a global centre for raising transition capital. The IA has engaged with the recent Transition Finance Market Review in support of this aim.

It will be necessary to define criteria or principles that can help identify and prioritise the most impactful and urgent transition finance opportunities so that the Government can better allocate its resources and interventions to the areas where it considers transition finance can make the most difference.

The IA has also recently begun participation in the Net Zero Blended Finance Project, which aims to improve the capacity and expertise of the Government to explore innovative blended finance approaches in mobilising additional private sector investment to support the UK's transition to net zero. Working with BVCA, the IA held roundtable discussions with officials from across government to identify opportunities to develop blended finance in the UK.

NATURAL CAPITAL

The UN COPs on nature and climate are vital processes with a significant array of detailed topics. The IA will encourage efforts to consider the overlaps between the two agendas and how nature can be better integrated in climate finance initiatives including transition planning and the IFRS sustainability standards.

Investment managers have identified several ways in which they can take account of natural capital in their investments. These include making a specific allocation to projects that establish, preserve, protect, and enhance nature, incorporating an investment's impact on natural capital when assessing its risks and long-term sustainability, and engaging with companies in which they are invested to increase awareness of the companies' impacts on nature and encourage them to build consideration of natural capital into their decision-making processes.

The IA has engaged with UK Parliament's Environmental Audit Committee as it considers how the concept of natural capital can provide environmental benefits and help to achieve the Government's environmental targets. Should policymakers wish to achieve these targets with private sector investment, it will also be necessary to consider how pursuit of these targets can be aligned with financially material risk factors for companies and offer an acceptable expected financial return for institutional investors.

An important element of the enhancement of natural capital is improving the effectiveness and credibility of voluntary and compliance carbon markets. As a policy tool, carbon markets are exposed to any regulatory and policy uncertainty which might exist in the same jurisdiction in which they are issued. In response to consultation on the UK Emissions Trading Scheme, the IA argued it is necessary for the UK ETS to enhance its market management features if the UK Government wishes to avoid an excessively low price and ensure a consistent long-term price signal aligned with the UK's decarbonisation targets. It is also important to monitor and analyse the drivers and implications of the price divergence between the UK ETS and the EU ETS, and to consider the potential benefits of convergence between the two markets in the future.

In engagement with IOSCO on voluntary carbon markets we argued development of a robust voluntary carbon market would be enhanced by alignment with compliance carbon markets regulated by governments and international agreements. An effective regime for bringing integrity to voluntary carbon markets internationally must also ensure that the voices of IOSCO members from the widest possible range of countries are heard.

The IA will support and advocate for consistency and certainty in real economy policy to catalyse green investment opportunities. We will place a particular focus on the sectors and technologies that are important to the energy transition in the UK and globally.

The IA will seek to enhance public-private cooperation to enable greater use of blended finance and other models of transition finance.

The IA will support the development of natural capital markets in the UK. This will include the further development of carbon compliance markets to send a more effective price signal to market participants, and the pursuit of a policy framework which promotes ecosystem services as an asset class.

The IA will support meaningful sustainability integration across all asset classes, exploring how to achieve high standards of engagement to provide necessary support and challenge on financially material factors while maintaining a holistic approach to asset allocation.

A CARBON NEUTRAL TRADE ASSOCIATION

As businesses and employers, we can look at our own corporate operations and work towards carbon neutrality. Following a programme of assessment, measurement and offsetting, the IA has been certified as a carbon neutral company for 2020. The IA has committed to remaining a carbon neutral company in subsequent years and will seek to identify ways in which we can reduce our emissions, while offsetting remaining emissions where necessary.

This is an extract from the IA Position on Climate Change.

Our members are supporting the companies in which they invest to prepare for and mitigate against the impact of climate change, and we believe every company has a role to play in the collective transition to net zero. In 2021, the IA began collecting the necessary information to determine our carbon footprint, with a view to becoming carbon neutral.

In December 2021, the IA was certified as a carbon neutral company. Our carbon neutrality strategy involves a combination of supporting external carbon reduction projects and implementation of various carbon-reducing policies within the business. The IA's staff Sustainability and Environment Wellbeing Group led the selection of offsetting projects based on the IA's values and corresponding UN Sustainable Development Goals.

Colleagues chose projects which supported responsible consumption and production, affordable and clean energy, clean water and sanitation, climate action, and quality education.

The IA will remain a carbon neutral company and will seek to identify ways in which we can reduce our emissions, while offsetting remaining emissions where necessary.

APPENDIX: CONSULTATION RESPONSES SINCE JANUARY 2023

This page lists all consultation responses and other formal representations relating to sustainable finance, climate change and nature policy which the IA has submitted since the beginning of 2023. These documents are produced by IA staff in consultation with committees of IA members including (but not limited to) the Sustainability & Responsible Investment Committee and the Climate Change Working Group. Information on all IA committees and working groups, including membership, is published on the IA member website.

Extending the Sustainability Disclosure Requirements (SDR) regime to Portfolio Management (FCA, June 2024)

Market Study on UK Sustainability Assurance Market (FRC, June 2024)

Transition Finance Market Review (May 2024)

UK Emissions Trading Scheme: Future Markets Policy (March 2024)

Voluntary carbon markets (IOSCO, March 2024)

Implementing the Overseas Funds Regime (FCA, February 2024)

Guidance on the anti-greenwashing rule (FCA, January 2024)

Spring Budget (January 2024)

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Transition Plan Taskforce Asset Managers Guidance (December 2023)

Implementation of the Sustainable Finance Disclosure Regulation (SFDR) (European Commission, December 2023)

Scope 3 emissions in the UK reporting landscape (DESNZ, December 2023)

Proposed International Standard on Sustainability Assurance 5000 (IAASB, December 2023)

The role of natural capital in the green economy (UK Parliament, September 2023)

The transparency and integrity of Environmental, Social and Governance rating activities (European Commission, August 2023)

Keeping the power on: our future energy technology mix (UK Parliament, August 2023)

Strategy and Policy Statement for energy policy in Great Britain (DESNZ, August 2023)

Future regulatory regime for ESG ratings providers (HM Treasury, June 2023)

Taskforce on Nature-related Financial Disclosures framework (June 2023)

Finance for positive sustainable change: governance, incentives and competence in regulated firms (FCA, May 2023)

National Policy Forum Consultation (Labour Party, March 2023)

Transition Plan Taskforce Disclosure Framework and Implementation Guide (February 2023)

Sustainability Disclosure Requirements (SDR) and investment labels (FCA, January 2023)

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