

February 28, 2020

The Road to Glasgow: Integration of
Climate Change Metrics into Business Decisions

Yesterday, as part of a kickoff event for COP26, which will be held in Glasgow in November, Bank of England Governor Mark Carney outlined the role of finance in transitioning to a net zero economy. As much of the climate-related disclosure that is now being made by US companies was originally driven by Carney's seminal [2015 speech](#), [yesterday's speech](#) may be seen as a good guide to what will be expected from European, and eventually American, companies in terms of climate action.

His objective is clear: to "ensure that every financial decision takes climate change into account." Notably, the Bank of England will become the first regulator to stress test its major banks and insurers against different climate pathways, including the "catastrophic business-as-usual scenario"; a transition to net zero by 2050; and a "late policy action" scenario involving a sudden recognition of the scale of stranded assets and economy-wide disruption associated with a delayed and disorderly transition. The stress tests will be built on scenarios being developed by the Network for Greening the Financial System (NGFS); those scenarios will be made publicly available this spring so that any company can use them to assess strategic resilience.

Carney also intends to work with standard setters and national authorities to make climate reporting mandatory. In this regard, Carney noted that the framework proposed by the Task Force for Climate-Related Financial Disclosures (TCFD) has become the "go-to standard" for climate-related information, with widespread support from across the financial sector, including every major systemic bank, nine of the top ten asset managers, all of the credit rating agencies, all major accounting firms and shareholder advisory firms, and with TCFD compliance included within the framework recently proposed for discussion by the World Economic Forum's International Business Council (WEF).

Relatedly, Carney encouraged the private sector to commit to full TCFD reporting in the 2021/22 reporting round, and to demand TCFD-consistent disclosures (which he noted would include a strategy for managing down scope 1, 2 and 3 emissions with appropriate board-level governance structures and compensation linkage) from borrowers and portfolio companies. He also encouraged companies to contribute to the review of the current TCFD framework that Mary Schapiro is leading.

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Carney's "Breaking the Tragedy of the Horizon" speech in 2015 led to the creation of the TCFD and the promulgation of its – at this point voluntary – climate-related disclosure standards, which have now been adopted to some extent by over 1000 companies. As Governor of the Bank of England, and Boris Johnson's Finance Advisor for COP26, he is in a position to exert significant influence on the future of climate-related disclosure. Forward-looking US companies should be mindful of these views.

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