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Taxonomies: Green Taxonomy Advances in the UK

October 11, 2022

Taxonomies

By Duncan Grieve
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The Green Technical Advisory Group (GTAG) has **recommended** that the UK green taxonomy should diverge from the EU's as little as possible. GTAG was established last year by the UK government to provide independent advice, oversee the delivery of the UK green taxonomy and tackle greenwashing. The UK incorporated wholesale the majority of the EU Taxonomy Regulation. However, the EU's technical screening criteria (TSC), which set forth technical conditions to assess whether an economic activity contributes to climate change adaptation or mitigation and whether it causes no significant harm to other environmental objectives in the Taxonomy, were not adopted because they were introduced after the UK had left the EU. GTAG proposes that the UK adopt some of the EU's TSC in the short term, and then make revisions as appropriate at a later date. GTAG also sets out guidance for such future amendments with the goals of avoiding greenwashing, simplicity, functionality (to avoid unnecessary cost burdens), and consistency with international standards.

The report states that "In general, a strategy that is consistent with the EU taxonomy is likely to have fewer costs and more benefits than one which is more ambitious in some criteria and less in others."

Taking the Temperature: Taxonomies are important to permit companies and investors to understand what businesses or products are deemed sustainable, making consistency among different jurisdictions' taxonomies crucial. With the rapid worldwide expansion of ESG regulatory requirements in recent years, companies will welcome developments that reduce complexity and mitigate international divergence. If the UK were to implement radically different requirements, investors and financial market participants would likely face an even greater regulatory burden as well as increased difficulty in making investment decisions and reporting sustainability characteristics.

Disclosure: Report Questions Adequacy of Climate Change Disclosure

October 11, 2022

Disclosure

By Jason Halper
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On October 6, *Carbon Tracker,* a financial think tank that analyses the impact of the energy transition on capital markets, published its **report**, titled “Still Flying Blind: The Absence of Climate Risk in Financial Reporting.” The report concludes that, despite a growth of net zero pledges along with other climate commitments in the last year, most of the companies surveyed, with a collective market capitalization of over $10 trillion, do not appear to be addressing the financial impact of these commitments, or of climate change risks more generally, in their financial statements. According to *Carbon Tracker*, 98% of the companies surveyed did not provide sufficient information to demonstrate how their financial statements include consideration of the financial impacts of material climate matters. *Carbon Tracker* reviewed 134 “highly carbon-exposed companies,” which together contribute up to 80% of global industrial greenhouse gas emissions and are listed in Appendix 5 of the report.

Taking the Temperature: Regardless of whether the correct figure is 98% or some lower percentage, the study is important in highlighting that many issuers are potentially at risk of regulatory enforcement activity or civil litigation as a result of a perceived mismatch between their net zero pledges and current practices in financial reporting. Companies need to take care that well-intentioned public statements around net zero and climate commitments are not contradicted by financial reporting practices.

Insurance: Munich Re Limits Future Fossil Fuel Coverage

October 11, 2022

Insurance

By Simon Walsh
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Munich Re, the world's largest reinsurer, has **announced** that starting April 1, 2023, it will no longer invest in or insure contracts or projects exclusively covering: (1) new oil and gas fields; (2) new midstream oil infrastructure; and (3) new oil fired power plants. According to the announcement, the policy applies to direct illiquid investments along with related reinsurance activities and will be enforced even where risks are bundled in one cover together with other risks (e.g., existing oil or gas fields), when the cover is mainly designed to protect one or more of the activities identified by the company. This announcement follows similar moves from other insurance providers such as **Allianz** and **Swiss Re** together with last week's **announcement** by Munich Re's syndicate in Lloyd's of London to cease underwriting traditional oil and gas activities by January 1, 2023. Munich Re did not rule out coverage for new gas pipelines, liquefied natural gas plants and gas-fired power plants.

Taking the Temperature: Munich Re's announcement can be viewed as part of a wider debate about how companies in the financial services and other industries should approach business with certain sectors of the fossil fuel industry (see next story). It is important to balance the goals of sustainability with the need for oil and gas energy to power a transition to a greener economy. It also is likely that companies seeking insurance coverage or investment in future oil and gas projects will pay higher premiums and have fewer options as the market continues to shrink.

Investing: Texas Agency Bars Bank From Underwriting Syndicate

October 11, 2022

Investing

By Sara Bussiere
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Texas Natural Gas Securitization Finance Corp., a state public authority, announced that it had excluded a financial advisor from the underwriting syndicate of a $3.4 billion municipal bond transaction. The underwriters on the deal were initially approved in May. However, UBS Group, along with nine other financial institutions, was **included on a list** of “Financial Companies that boycott energy companies.” The Comptroller claimed that there was a “lack of transparency” and “use of doublespeak” by the companies and that they were acting differently behind closed doors when compared to their “anti-oil and gas rhetoric” in public.

Lee Deviney, executive director of the Texas Public Finance Authority, the state agency overseeing the sale, stated that “Yesterday, the Corporation board adopted a resolution reconstituting the underwriting syndicate for the upcoming natural gas utility securitization bond sale” and that “UBS will not be part of that syndicate. There were no other changes made to the previously appointed underwriting syndicate.” In response, **UBS stated** it “recently met with the Texas Comptroller’s Office to reiterate the importance of the energy industry and Texas to [its] business and provided them with additional information demonstrating that it is both [UBS’s] policy and practice to do business with energy companies, including those in the fossil fuel industry.”

Taking the Temperature: Texas’ decision is just the latest move by a state government or agency to cease certain business with financial institutions deemed not sufficiently supportive of certain segments of the energy industry or overly focused on ESG issues. Other examples include Texas’ decision to require state pension funds to divest shares held in certain U.S. and European financial firms unless they include language in their contracts with state pension funds stating that the asset manager “does not boycott energy companies” and Florida’s resolution directing the state’s fund managers to prioritize “the highest return on investment . . . without considering the ideological agenda of the environmental, social, and corporate governance (ESG) movement.” It remains to be seen how states and financial institutions navigate what is becoming an increasingly politicized aspect of sustainability investing.