

Institute and Faculty of Actuaries

Steer Report

Subject	Regulation of climate change and sustainability
Regulation Board meeting	17 November 2020
Author	Green Finance Education Charter Task and Finish Group
International issues considered?	Yes

A: EXECUTIVE SUMMARY

1. This paper provides an update to Regulation Board (the Board) on the IFoA's plans in relation to green finance and regulation, in particular:
 - the work of Council's Climate-Related Risk Taskforce (CRRT); and
 - the Green Finance Education Charter (GFEC) to which the IFoA is a signatory.

2. It also seeks a steer from the Board on initial proposals from the GFEC Task and Finish Group (TFG) in relation to potential changes to the IFoA's Regulatory Framework.

B: CLIMATE-RELATE RISK TASKFORCE

3. In September 2020, Council endorsed the CRRT's report on climate-related risks. In brief, the report included 38 recommendations, ranging from immediate actions to longer term goals and overarching principles.
4. The report set out that **the core goal for the IFoA should be that climate related risk is understood and considered by our members in the same way as other major risks** such as interest rate risk and mortality risk. A summary of the report is provided in **Appendix 1** inclusive of its full section on Regulation (6.2) and that on external relationships (6.4.2).
5. The report identified six factors that drive the need for the IFoA to address climate related risk: financial risk, regulatory expectations, signatory commitments, public interest, new member interest and opportunities.
6. The report considered its objectives to be divided into three categories:
 - How **individual members** are enabled and encouraged to incorporate considerations of climate-related risk and opportunities into their work
 - How as a **membership body**, the IFoA manages the risks posed by climate change by supporting the competencies of all its members, helping its members to take advantage of new opportunities, protecting the reputation of itself and its members, and ensuring its operational resilience
 - How the IFoA's **external relationships**
 - with regulators and policymakers can help to ensure the appropriateness of regulation.
 - with a wide range of stakeholders enable it and its members to act in the public interest by speaking out on the implications of climate risk, articulating the potential for unintended consequences and highlighting ways in which actuaries' influence on the financial system can help mitigate climate risks.

7. Section 6.2 of the report covers the ways that regulation can support these objectives. It considered and made recommendations for consideration by Regulation Board in relation to several elements of the regulatory framework including the Actuaries' Code (the Code), professional and technical standards, risk alerts, monitoring, the disciplinary scheme, practising certificates and CPD requirements.
8. The core focus of the GFEC TFG is to address the actions in the recommendation **R14 of the report**:
 - **The Code, related guidance, and professional standards should be reviewed in the light of the GFEC commitment (update to be completed by December 2021).**
9. The remaining recommendations (R13 and R15-R18), are out of scope for the GFEC TFG. These will be brought to the Board for consideration separately, with input from the TFG as appropriate. For example, recommendations around a thematic review as part of the Actuarial Monitoring Scheme in relation to climate change were brought and discussed as part of the Board's recent consideration of the 2021 thematic review programme.

C: GREEN FINANCE EDUCATION CHARTER

10. As the Board is aware from previous Executive Updates, the IFoA is a signatory to the UK Government's GFEC, which is part of its Green Finance Strategy, focused on aligning private sector financial flows with clean, environmentally sustainable and resilient growth. A copy of the GFEC is included as **Appendix 2**.
11. Signatories to the GFEC acknowledge that they recognise the global challenge of climate change as a defining issue of our time and that they have a "strategic, commercial and moral imperative to develop clean, resilient and prosperous economies that work for all".
12. This aligns with the terms of Article 2.1c of the Paris Agreement (of which the UK is also signatory), which provide that parties to the agreement will aim to "strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by ... [m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."
13. This approach is founded on the basis that in order to create a truly sustainable global economy, it is necessary to adapt economic models so that businesses take account of, and work to improve, environmental, social and governance issues, including, specifically, climate change and other environmental damage.
14. More specifically, the GFEC includes some specific commitments relevant to the IFoA's public interest regulatory role:

	Description	Deadline
Charter Commitment 4	Undertake a review of professional Codes of Conduct, and related guidance, and update or augment these to reflect green and sustainable finance principles	By December 2021
Charter Commitment 5	Undertake a review of our programmes of initial and continuing professional development to	By December 2021

	ascertain existing coverage of and the opportunities for encompassing green finance	
Charter Commitment 6	Mainstream the principles and practice of green finance into our programmes of initial and continuing professional development (as relevant)	By December 2023

15. The TFG has been established to support the Board in meeting Charter Commitment 4. It has met twice to discuss proposals for potential changes to the Regulatory Framework.
16. In considering the appropriate approach to take, the TFG has had regard to green and sustainable finance concepts, in particular, the Universal Ownership Theory.

Potential options

17. The Board has a number of options available to it in terms of ensuring the IFoA meets its commitments under the GFEC. Some of the main approaches discussed by the TFG are outlined below:

Option 1: Amending the Code to include either:

- a. an additional, high-level, principle requiring members to have regard to systematic risks relating to climate change and sustainability when carrying out actuarial work, with amplification(s) around articulating those risks to users (or a broader principle requirement members to have regard to systemic risks generally with more specific amplification(s) relating to the behaviours expected of members in relation to climate change and sustainability); or
- b. an additional amplification under the 'Competence and Care' or 'Communication' principles to include a specific requirement for members to consider and make users aware of the systematic impacts of their work in relation to climate change and sustainability.

Any such changes would require to be supplemented by additional guidance within the existing Guide to the Code to assist Members with their understanding and interpretation of the requirements.

Option 2: The development of a cross practice Actuarial Profession Standard ("APS") to cover areas relating to climate and sustainability risk where there should be mandatory requirements but those seem too specific for a high level Code of general application. For example, some specific provisions around communicating climate-related risks to users.

The advantage of this option would be the potential for having slightly different requirements for those working in different environments, if appropriate, and the ability to include all members within scope or, similar to APS X5: Compensation for professional Shortcomings, tailor the APS to those members with senior roles within organisations who are likely to be in more influential or decision-making positions.

This option would require to be supplemented by guidance.

Option 3: No changes to the Code or new professional standards but development of non-mandatory guidance on climate and sustainability issues as they relate to actuaries. This could be integrated within the existing Code guidance or developed as a separate, stand-alone, piece. Such guidance might include:

- Background information, including an introduction to the Paris Agreement, GFEC and wider climate change initiatives across the IFoA;
- An explanation of what is meant by climate-related risks and 'green' and 'sustainable' finance and the ways in which the finance sector can support the transition to a sustainable, low-carbon economy.
- An overview of Green Finance principles, including the UN Principles for Responsible Investment, Sustainable Insurance and Responsible Banking, as well as relevant global and national standards, frameworks and guidance, including the guidance published by the Task Force on Climate-related Financial Disclosures (TCFD).
- An explanation of the role of the IFoA and actuaries in supporting and building a sustainable finance system and the long term impact their work can have in relation to climate and sustainability issues.

The TFG questions whether this would be a desirable option given that guidance is non-mandatory in nature and therefore does not require to be complied with by members. Its view is that the development of guidance alone might not go far enough in terms of meeting the commitments of the GFEC.

18. All three options would be supplemented by educational material such as case studies, webinars, blogs and other articles to highlight climate change and sustainability issues and how actuaries should be mindful of these when providing advice.
19. It is likely that options 1 and 2 above would require a period of public consultation before implementation.
20. The TFG's initial view is that there would be merit in exploring Option 1 above; that is, amending the Code to include an additional high level principle requiring members to consider how systematic climate-related risks affect the advice they are providing, supplemented by supporting guidance.
21. Its rationale is as follows:
 - It is evident that there is currently a knowledge gap in terms of actuaries' awareness of climate change and sustainability issues. While it might be argued that in the broadest sense the Code and professional standards between them already require that members take climate related risk into account when it is material, the TFG considers that including an additional principle within the Code would have the best chance of increasing members' awareness in these areas.

- Climate change and sustainability risks are growing systemic risks that are broader than some other traditional 'actuarial risks' such as longevity and mortality. In particular, there is the two-way nature of these risks. There is not only the impact of sustainability risks on actuarial work but also the potential collective impact of actuarial work on these risks. This makes climate risks different from the traditional actuarial risks and a distinctive consideration to other elements of the Code. It is therefore reasonable to include it specifically within the Code even where there is no specific mention of other types of risks that actuaries are advising on.
 - The need for actuaries to consider the systemic impacts of their work is critical to enabling the IFoA to act in the public interest. Including a principle on climate change and sustainability within the Code will ensure that members are supporting the IFoA in acting in the public interest in a way in which non-mandatory guidance by itself may not be able to achieve.
 - The TFG considers that amending the Code to include a high level principle relating to climate change is the best approach to meeting the IFoA's commitments under the GFEC.
22. The TFG recognises that such a change to the Code would be a significant departure from the current approach and that any requirements imposed on members would require considerable further thought and careful drafting, including in relation to the level of obligation placed on members (i.e. 'must' versus 'should' requirements) and the impact and applicability to members working outside the UK where local approaches to climate related issues and regulation may differ.
23. The Board is asked to provide a steer on the initial views of the TFG to allow it to carry out further work to develop proposals for an additional principle and amplification(s) for the Code, together with appropriate accompanying guidance.

D: NEXT STEPS

24. The TFG will develop proposals in terms of changes to the Regulatory Framework in light of the Board's comments. Final proposals for consultation will be brought to the Board in May 2021 for approval with an update provided to the Board in February for comment.

E: DECISION

25. The Board is asked to note this update and provide a steer on the recommended approach to allow the TFG to proceed to refine and work on the detail of the proposals.

F: Appendices

Appendix 1: Summary of Climate Related Risk Taskforce report

Appendix 2: Green Finance Education Charter and related background reading