

The role of financial regulators in Natural Capital

Dr Richard Mattison

Chief Executive Officer

Trucost

S&P Dow Jones Indices

28th October 2017

**S&P Dow Jones
Indices**

A Division of **S&P Global**

Why Does it Matter to the Finance Industry? The Tragedy of the Horizons



BANK OF ENGLAND

“Shifts in our climate bring potentially profound implications for insurers, financial stability & the economy” (Carney 2015)



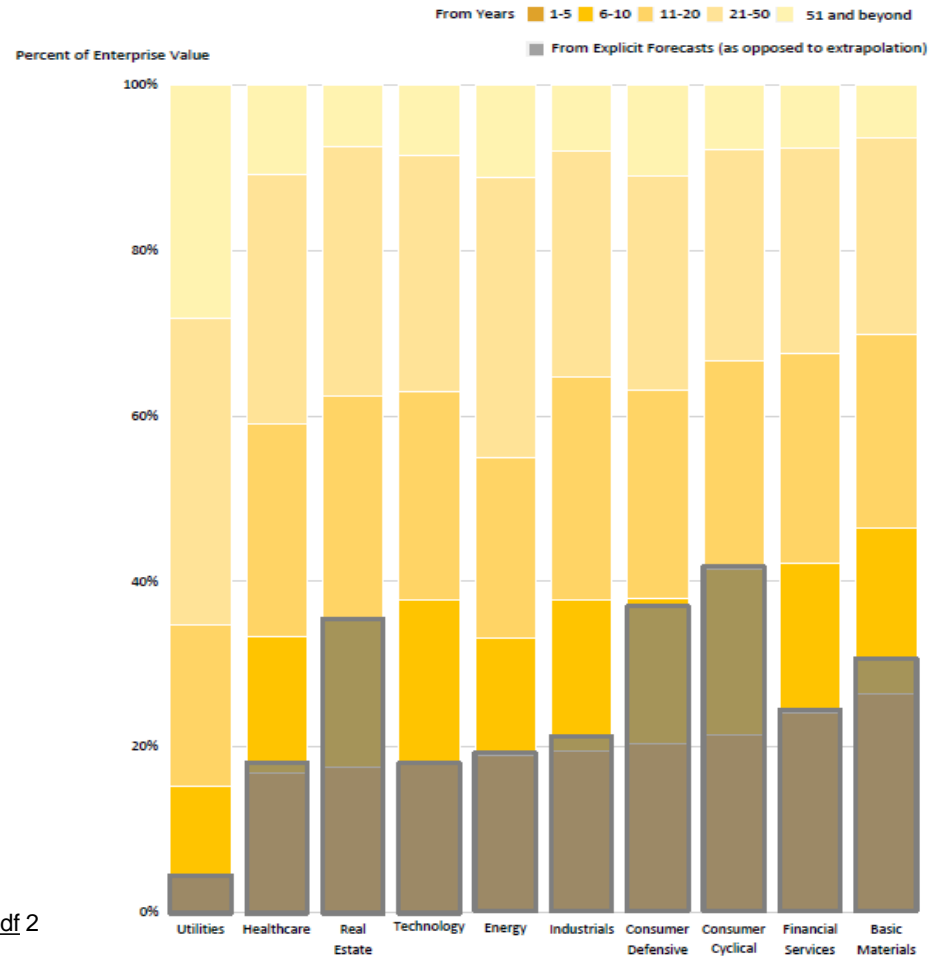
**Breaking the tragedy of the horizon:
climate change & financial stability
Sept. 2015 speech to Lloyds of London**

“The past is not prologue and the catastrophic norms of the future can be seen in the tail risks of today....Risks to financial stability will be minimised if the transition begins early and follows a predictable path, thereby helping the market anticipate the transition to a 2 degree world”.

Long Term Perspectives Needed

Enterprise Value Attributable to Time Period and Explicit Cash Flow Forecasts:

- Value is primarily based on the growth and discount rate assumptions used to calculate terminal value--not on Explicit Forecasts.
- More than 50% of the value of an oil and gas company resides in the value of cash flows to be generated in year 11 onwards (McKinsey and the Carbon Trust)



Source: <http://www.tragedyofthehorizon.com/All-Swans-Are-Black-in-the-Dark.pdf> 2 degree investing initiative 2017

FSB Task Force on Climate Related Financial Disclosures

The Task Force developed **four widely-adoptable recommendations** on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate:



Governance

The organization's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management

The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017), <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/TCFD-Recommendations-Overview-062717.pdf>.



FINANCING A
SUSTAINABLE
EUROPEAN ECONOMY

A financial system that serves the sustainable development of the EU is one that:

1. Is **productive**, financing job creation, education, innovation, infrastructures and other real economic needs
2. Considers the **full value** of financial assets
3. Demonstrates **alignment** between the preferences of its users and the outcomes along the lending and investment chain
4. Takes a **long-term** perspective, overcoming the ‘tragedy of the horizon’.
5. Is **resilient** against a wide range of shocks

Source: Interim Report of the EU High Level Expert Group on Sustainable Finance July 2017, https://ec.europa.eu/info/sites/info/files/170718-sustainable-finance-presentation-christian-thimann_en.pdf.



1. A classification system for sustainable assets [L] [SEP]
2. A European standard and label for green bonds and other sustainable assets, as well as labels for sustainable funds [L] [SEP]
3. Fiduciary duty that encompasses sustainability [L] [SEP]
4. Disclosures for Sustainability
5. A sustainability test in financial legislation
6. Create 'Sustainable Infrastructure Europe'
7. Position the European Supervisory Agencies on sustainability
8. Accounting standards for energy efficiency [L] [SEP]

Source: Interim Report of the EU High Level Expert Group on Sustainable Finance July 2017, https://ec.europa.eu/info/publications/170713-sustainable-finance-report_en.

TRUCOST DISCLAIMER

Copyright © 2017 Trucost plc (“Trucost”), a subsidiary of S&P Dow Jones Indices LLC. All rights reserved. Trucost and EBboard are trademarks of Trucost plc.

This document does not constitute an offer of services in jurisdictions where Trucost and its affiliates do not have the necessary licenses. Trucost is not an investment advisor, and Trucost makes no representation regarding the advisability of investing in any company, security, investment fund or other investment vehicle. A decision to invest in any company, security, investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any company, security, fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle.

The materials have been prepared solely for informational purposes only based upon information generally available to the public from sources believed to be reliable. No content contained in these materials (including credit-related analyses and data, research, valuation, models, software or other application or output therefrom) or any part thereof (“Content”) may be modified reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of Trucost. The Content shall not be used for any unlawful or unauthorized purposes. Trucost, its parent S&P Dow Jones Indices LLC and its third-party data providers and licensors (collectively the “Trucost Parties”) do not guarantee the accuracy, completeness, timeliness or availability of the Content. Trucost Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN “AS IS” BASIS. TRUCOST PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall any of the Trucost Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

The Content does not constitute or form part of any offer, invitation to sell, offer to subscribe for or to purchase any shares or other securities and must not be relied upon in connection with any contract relating to any such matter. ‘Trucost’ is the trading name of Trucost plc a company registered in England company number 3929223 whose registered office is at 20 Canada Square, London E14 5LH, UK.

CONFIDENTIALITY & COPYRIGHT

The information contained in this report is confidential and is submitted by Trucost on the understanding that it will be used only by your employees and consultants. Where consultants are self-employed, the use of this information is restricted to use in relation to your business. In particular, the contents of this report may not be disclosed in whole or in part to any other party without the prior written consent of Trucost.

S&P DOW JONES INDICES DISCLAIMER

© Copyright © 2017 by S&P Dow Jones Indices LLC, a part of S&P Global. All rights reserved. Standard & Poor's®, S&P 500® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of S&P Global. Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Trademarks have been licensed to S&P Dow Jones Indices LLC. Redistribution, reproduction and/or photocopying in whole or in part are prohibited without written permission. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, Dow Jones, S&P or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. All information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties. Past performance of an index is not a guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Dow Jones Indices keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Dow Jones Indices may have information that is not available to other business units. S&P Dow Jones Indices has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

Contact Us

Dr Richard Mattison

CEO | Trucost, part of S&P Dow Jones Indices

20 Canada Square
Canary Wharf, London, E14 5LH

T +44 (0) 20 7176 9813
richard.mattison@spglobal.com

S&P Dow Jones Indices

A Division of S&P Global