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MEMORANDUM

Why shareholders should vote FOR South Africa's first shareholder resolution calling for climate risk disclosure

Standard Bank Annual General Meeting (AGM), 30 May 2019
Resolution 10

At Standard Bank's AGM on 30 May, shareholders will vote on a resolution proposed by the RAITH Foundation and Theo Botha. This is the first climate risk-related shareholder resolution to be tabled in South Africa. RAITH, Botha and Just Share commend the Standard Bank board for tabling the resolution.

The resolution would require Standard Bank to:

(a) report to shareholders by the end of November 2019, at reasonable cost and omitting proprietary information, its assessment of the greenhouse gas emissions resulting from its financing portfolio and its exposure to climate change risk in its lending, investing and financing activities including: (i) the amount and percentage of carbon-related assets[1] relative to total assets, and (ii) a description of any significant concentrations of credit exposure to carbon-related assets; and

(b) adopt and publicly disclose a policy on lending to coal-fired power projects and coal mining operations.

These are Resolutions 10.1 and 10.2 respectively in Standard Bank's 2019 Notice of AGM. The board of Standard Bank has recommended that shareholders vote against both parts of Resolution 10. **In this memo, RAITH, Botha and Just Share provide further context to the resolution, respond to the board's "reasons for non-endorsement" of the resolution, and give further reasons for voting in favour of it.**

A. Rationale for proposing the resolution

Banks' financing choices have a major role to play in promoting carbon reduction. Bank lending and investments make up a significant source of external capital for carbon intensive industries. Every rand invested by South African banks in new fossil fuels increases climate risk, renders it harder to achieve a just transition to a low-carbon economy, and exposes the banks to reputational and financial risks.

Shareholders should be able to assess the extent to which Standard Bank is exposed to climate risk by virtue of its lending, investment and financing activities. However, the information currently disclosed by the company is insufficient to enable shareholders to adequately assess these risks.

[1] The Task Force on Climate-Related Financial Disclosures recommends that the term **"carbon-related assets"** should be considered to refer to "those assets tied to the energy and utilities sectors under the Global Industry Classification Standard, excluding water utilities and independent power and renewable electricity producer industries". See TCFD publication, "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures", https://www.fsb-tcfd.org/wp-content/uploads/2017/12/FINAL-TCFD-Annex-Amended-121517.pdf

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Standard Bank's board argues that its ESG reporting already provides shareholders with sufficient information to enable them to understand the company's climate change risk exposure and risk management. It is difficult to understand how this claim can be accurate when the company does not disclose the information that the Financial Services Board's Task Force on Climate-related Financial Disclosures (TCFD) considers essential to enable investors to "measure and respond to climate change risk." Without this disclosure, shareholders are unable to assess the extent to which **they** are exposed to climate risk via their holding in Standard Bank.

Climate risks "are a function of cumulative emissions", in other words, the longer we leave it to act, the more costly will be the adjustment we have to make[2]. Financial institutions will put both their businesses and shareholder capital at risk if they fail to grasp the pace of change that is required in order to move to a low carbon economy.

Voting in favour of Resolution 10 will not only provide Standard Bank's shareholders with much more meaningful information on climate risk than is currently disclosed by any South African financial institution; it will also mean that shareholders will set a precedent which will dramatically accelerate the pace at which South African companies consider, manage and report on climate change-related risk.

B. What would Standard Bank be expected to do?

Resolution 10.1 is aligned with the June 2017 Recommendations of the TCFD. The TCFD has developed "voluntary consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders" relating to "the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries"[3]. The resolution follows the TCFD's Supplemental Guidance for the Financial Sector[4].

The TCFD Recommendations provide guidance for climate risk disclosure. There is no one single acceptable way to assess climate risk exposure, but the Recommendations aim to help companies "understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors' needs".

The report that Standard Bank would need to prepare, should the resolution pass, would not be assessed according to a rigid template: climate risk disclosure is an evolving practise. Rather, such a report would constitute a vital first attempt at providing shareholders with more comprehensive information about the company's climate risk exposure. A number of banks around the world already provide precedents for current best practice (some examples are set out below).

C. The board's reasons for non-endorsement of Resolution 10, and the proposing shareholders' responses to those reasons

Board Reason 1

"Banking is extensively and intensively regulated and supervised, both nationally and internationally. There are already significant requirements around reporting lending exposures to regulatory authorities".

[2] See Mark Carney speech, *Breaking the Tragedy of the Horizon*, September 2015
[3] https://www.fsb-tcfd.org/about/
[4] Part D of "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures", https://www.fsb-tcfd.org/wp-content/uploads/2017/12/FINAL-TCFD-Annex-Amended-121517.pdf

Response

There are no current requirements for South African banks to report any information about lending exposure to climate change risk to regulatory authorities.

Board Reason 2

"The group's clients which operate in South Africa are already required to report their greenhouse gas emissions in terms of the National Greenhouse Gas Emission Reporting Regulation … Furthermore, in South Africa, the forthcoming Carbon Tax is an important policy measure to promote a just transition to a lower carbon economy in line with the Government of South Africa's ratification of the Paris Agreement. Coordinated national and international strategies to reduce greenhouse gas emissions are the most effective means of responding to climate change".

Response

i. The data disclosed to the government in terms of the National GHG Emission Reporting Regulations is not publicly available, and data providers are only required to report one aggregated total per listed activity (i.e. they do not have to report GHG emissions on a facility or project level). Even if this information was publicly available, Standard Bank does not disclose details of the recipients of its financing activities, and so shareholders could not use this information to ascertain the bank's exposure to carbon-intensive projects and entities. Furthermore, the Regulations only apply to entities based in South Africa, and would not apply to Standard Bank's clients throughout the rest of sub-Saharan Africa.

ii. The South African carbon tax will be implemented in phases. It incorporates a raft of allowances and rebates which mean that heavy greenhouse gas emitters will be minimally taxed for at least the next three years. Again, however, the carbon tax is irrelevant in the context of the resolution: it only applies to South African entities, and it will not provide shareholders with any of the information that they need to be able to assess the company's climate risk exposure.

Board Reason 3

"The development and implementation of reliable methodologies to measure the carbon intensity of lending across various portfolios is not well-defined nor agreed. The company will be required to obtain information regarding their emissions from its many business clients operating across the continent (most of whom will know [sic] their own carbon footprint). Suitable methodologies and reporting frameworks are still evolving within the banking sector to overcome challenges associated with determining what proportion of client emissions result from the bank-provided finance. A multi-year process needs to be followed to develop credible metrics and targets for financial-related climate risk".

Response

The Board fails to acknowledge not only that the TCFD Recommendations have already developed credible metrics and targets for financial-related climate risk, but also that there are a number of banks around the world which are providing this information to shareholders. These disclosures are reviewed by the TCFD, which makes suggestions for improvement. Climate risk disclosure is an evolving process: it is necessary to start somewhere.

For example:

- **ANZ** (the Australia & New Zealand Banking Group Limited) in 2018 disclosed "credit metrics and our exposures to various sub-industries in four key sectors identified by the TCFD to be most exposed to climate-related risks: energy, transportation, materials and building, and agriculture, food and forestry products". The bank has determined that its "overall exposure to these four industry sectors is 19% of the Group exposure at default"[5]. ANZ also discloses its financed emissions, and how these have increased or decreased over time[6].

- **Royal Bank of Canada** discloses in its 2018 ESG Report that its lending to carbon-related assets relative to total assets is 4.5%[7].

- **UBS** discloses in its March 2019 Climate Strategy that carbon-related assets comprise 1.2% of its total net credit exposure[8].

- **Standard Chartered's** 2018 Climate Change Disclosures include details of its exposure to the oil and gas, coal, and electric utilities sectors[9].

As Standard Bank acknowledges in its response to the resolution, it submits annual reports to the CDP[10]. The 2019 CDP Climate Change Questionnaire's technical note on "Reporting guidance for financial services sector companies responding to CDP", recommends that banks "describe significant concentrations of credit exposure to carbon-related assets".

As an adopter of the Equator Principles, and as current chair of the Equator Principles Association, Standard Bank records that "it is tasked with the responsibility of identifying risks and opportunities of climate change, with a focus on project specific risk and mitigation measures …the Equator Principles, applied to all new project finance transactions, requires the assessment of indirect emissions stemming from project lending activities"[11].

The board's argument that the requirements of Resolution 10.1 are too onerous appears to be contradicted by the fact that Standard Bank will already be requested to submit information on its lending emissions to the CDP by the end of July 2019[12], and that the Equator Principles already require the bank to conduct assessments of indirect emissions from its project finance activities.

D. Timeframe for preparing report referred to in resolution 10.1

After RAITH and Botha had submitted the resolution to Standard Bank, representatives from the bank requested that the timeline be changed from November 2019 to May 2020. RAITH and Botha readily agreed to move the timeline out to May 2020, but the company did not amend the resolution to reflect this agreement. However, on the basis of the information set out above, there is no reason

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[5] ANZ 2018 Sustainability Review, page 38: https://www.anz.com.au/content/dam/anzcomau/documents/pdf/aboutus/wcmmigration/2018-anz-sustainability-review.pdf
[6] Ibid, page 40
[7] https://www.rbc.com/community-social-impact/_assets-custom/pdf/2018-ESG-Report.PDF at page 68
[8] UBS Climate Strategy March 2019, page 4
[9] Standard Chartered 2018 Climate Change Disclosures, page 3
[10] Formerly the Carbon Disclosure Project, CDP "runs the global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts". See https://www.cdp.net/en
[11] Standard Bank's 2018 CDP report, C2.3a
[12] https://www.cdp.net/en/companies-discloser/disclosure-info

why Standard Bank cannot prepare a report, even if only a preliminary one, by the end of November 2019.

E. Resolution 10.2 – adoption and disclosure of policy on lending to coal-fired power projects and coal mining operations.

The board states in the notice of AGM that the group has “adopted a group wide policy in relation to its funding of coal-fired power stations”. It provides no reasons why it should not make this policy publicly available, and no reasons for its non-endorsement of this part of the resolution. As Michael Bloomberg, Chair of the TCFD, has said, “Increasing transparency makes markets more efficient, and economies more stable and resilient”. Shareholders should vote in favour of resolution 10.2.

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