BANKS, THE VALUE OF FINANCIAL ASSETS AND DISCLOSURE OF CLIMATE RISKS

Climate change, climate risk and consequent developments in public policy will have a massive effect on financial institutions and markets over the next decade and beyond. There will be particular effects in the context of the disclosures institutions need to make and which should be made to them related to the valuation of the financial and other assets in which they trade or lend upon. How those assets are to be valued is likely to change significantly. There is a growing and developing sense, that present valuations do not adequately factor in climate-related risks and that traditional economics needs a re think so that a financial value is put on nature if its continuing degradation and destruction is to be avoided. This is a trend recognised and acknowledged by senior bankers and other industry professionals. Mark Carney, the former Governor of the Bank of England has said of value that "changes in climate policies, new technologies and growing physical risks will prompt reassessments of the values of virtually every financial asset." And Larry Fink, CEO of Black Rock has said that he believes that "we are on the edge of a fundamental reshaping of finance" and that "climate change has become a defining factor in companies' long-term prospects".

Banks, investment managers, and funds of all types are potentially exposed to the risks that these changes are likely to bring. They are also exposed to potential issues arising under the disclosure regimes that will be necessary to facilitate these changes. Without disclosure regimes that take account of climate risk, it will be impossible for investors, shareholders and the public generally to value assets and whether the price of a share, a bond or unit is fair.

ADDLESHAW
GODDARD

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For banks there will be pressures at both ends of the spectrum: from their investors and shareholders as well as the NGOs and public in relation to lending that is perceived to facilitate the carbon majors and in relation to the nature of the disclosure they give and the extent to which it takes proper account of climate risks.

These pressures are coalescing around pressure for more and more detailed disclosure by a broader range of companies which takes account of and puts value financial value on climate risk. The UK government intends to make the UK the first country in the world to make the Task Force on Climate Related Disclosures (TCFD) reporting mandatory across the economy by 2025. From 21 January 2021 under new listing rules implemented by the FCA, UK premium listed companies are required to include a statement in their annual financial report which sets out whether their disclosures are consistent with the recommendations of the TCFD and to explain why if they are not. There is already pressure to go further and faster. Another round of significant environmental and political scrutiny is likely as the UK hosts COP 26 in November.

Richard Clayton
Partner

+44 (0)7912 395246
Richard.Clayton@addleshawgoddard.com
Connect with Richard

James Herring
Partner

+44 (0)7595 777976
James.Herring@addleshawgoddard.com
Connect with James

Sivan Daniels
Legal Director

+44 (0)7841 879309
Sivan.Daniels@addleshawgoddard.com
Connect with Sivan