Dear Mr Land,

Re: Investors expect fossil fuel companies’ viability statements to address climate risk

The undersigned institutions are writing to set out long-term investors’ expectations that fossil fuel dependent companies (notably oil, gas and coal companies) should address climate-related risks in the newly introduced viability statements in their annual reports.

We believe climate change, and government policies to tackle climate change, are likely to impact the value of our investments in a range of sectors. In the case of fossil fuel dependent companies, the impacts could be profound, and may well represent an existential risk to the business. This is likely to be most pronounced and urgent for coal, oil and gas production companies. To ensure directors make decisions that are in the long-term interests of shareholders, the boards of these companies should consider carefully the climate risks they face, how these will be managed, and then communicate their conclusions to shareholders.

Listed companies long-term viability statement introduced in October 2014
A “viability statement” has been introduced in The UK Corporate Governance Code (Paragraph C.2.2) from 1 October 2014 to ensure boards of directors consider and articulate long-term risks:

"Taking account of the company’s current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary." (Emphasis added)

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1 We focus on coal, oil and gas companies in this letter, but we would also expect other fossil fuel dependent companies to consider and assess their climate risks whenever this is a foreseeable threat to the business prospects.

2 For quoted companies with a premium listing, Rule 9.8.6 of the Listing Rules requires a statement in the annual report indicating how the company applies the main principles of The UK Corporate Governance Code.
The Code does not specify the time period which the viability statement should cover, but the FRC has made clear in its associated Guidance that:

"The length of the period should be determined, taking account of a number of factors, including without limitation: the board’s stewardship responsibilities; previous statements they have made, especially in raising capital; the nature of the business and its stage of development, and its investment and planning periods." (Emphasis added)

The appropriate planning time-frame for fossil fuel companies spans decades

For fossil fuel companies, investment and planning periods can span several decades. By way of example, Royal Dutch Shell plc issues scenario planning and future outlooks that extend to 2050. The long-term focus of this modelling is necessary because the full life cycle of many oil and gas projects run for decades. In a May 2015 presentation to shareholders, Shell highlighted the long-term nature of these projects, estimating that from exploration to production, projects could span between 10 and 22 years, with oil production continuing for 20 years or more after that.

In accordance with the Code, and to reassure investors that the company’s board is thinking beyond the immediate business cycle, the viability statement should be aligned with the company’s investment and planning periods. For many fossil fuel companies the viability statement will therefore need to cover any foreseeable risks that they expect to face in the next 10 to 20 years. Specifically, a company’s board should assess risks that could threaten its business model, future performance, solvency or liquidity (Paragraph C.2.1. of the Code).

Climate change poses real threats to long-term viability

As detailed in the FRC’s Guidance, this assessment should cover resilience to threats to the company’s viability posed by risks in severe but plausible scenarios, and should include sufficient qualitative and quantitative analysis to make a soundly based statement. The analysis should be tailored to the individual circumstances of the company and should be undertaken with appropriate prudence, i.e. weighing risks more heavily than opportunities.

For fossil fuel dependent companies, the assessment of principal risks must in our view cover those risks to the company presented by climate change, associated climate legislation and policy, development of low-carbon and lower-cost energy resources, and/or other related structural changes to the energy market.

It is already clear that government policies to curtail demand for fossil fuels (for instance by encouraging or mandating greater energy efficiency or a shift towards cleaner sources of power) are having a material impact on demand for fossil fuels. Leaders of the G7 countries have further committed to eliminating the use of fossil fuels by 2100; and over 190 governments from across the World participating in United Nations-sponsored talks on climate change in December 2015 reaffirmed their commitment to limiting climate change to below 2 degrees Celsius – and set a

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3 The International Energy Agency, for instance, reported in its 2015 World Energy Outlook the energy efficiency improvements helped restrain the growth in final energy demand in 2014 to just one-third of the level it would otherwise have been.
new aspirational goal of 1.5 degrees – through more concerted action to rein in the consumption of fossil fuels.

**Fossil fuel companies’ viability statements should address climate risks**
The viability statement should demonstrate that the directors are cognisant of the major shifts underway in the World’s energy sector emanating from climate regulatory action as well as any impacts that may result from the physical effects of a warming climate. Directors should outline how they have considered the associated risks to the company and what action is or will be taken to manage these risks, and draw attention to any qualifications or assumptions as necessary.

We are not alone in believing that shareholders (and indeed the public) need this information to properly assess stewardship as well as longer-term prospects of specific companies. The Governor of the Bank of England, Mark Carney, recently called for improved disclosure in a report outlining the potential systemic risks that could emanate from poor information about climate risks embedded in the corporate sector⁶. The New York Attorney General has gone further, launching investigations into whether two fossil fuel companies (the coal producer Peabody Energy and oil and gas major ExxonMobil) have misled their investors by failing to properly disclose what they know about possible material risks to their businesses emanating from climate change. Peabody Energy reached a settlement with the NY Attorney General shortly after the announced investigation⁷.

We are aware that the FRC is planning a consultation in relation to the viability statement. We would welcome the opportunity to engage further with the FRC to ensure future guidance issued by the FRC meets with investor expectations as set out in this letter.

Yours sincerely,

Natasha Landell-Mills, Head of Stewardship
*Sarasin & Partners LLP*
Latest AUM: £13.4 billion

Sacha Sadan, Director of Corporate Governance
*Legal & General Investment Management*
Latest AUM: £717 billion

Erik Jan Stork, Senior Sustainability Specialist
*APG*
Latest AUM: €415 billion

Stephanie Maier, Head of Responsible Investment Strategy & Research
*Aviva Investors*
Latest AUM: £265 billion

⁶ See Mr. Carney’s speech at [http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx](http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx)
Cllr Kieran Quinn, Chair  
*Local Authority Pension Fund Forum (LAPFF)*  
Latest AUM: £175 billion

Roland Bosch, Associate Director  
*Hermes Investment Management*  
Latest AUM: £155 billion

Ashley Hamilton Claxton, Corporate Governance Manager  
*Royal London Asset Management*  
Latest AUM: £87 billion

Ulrika Danielson, Head of Communications and HR/Coordinator of Corporate Governance  
*Andra AP-fonden/Second Swedish National Pension Fund*  
Latest AUM: £23.5 billion

Mark Chaloner, Assistant Director (Investments)  
*West Midlands Pension Fund*  
Latest AUM: £11.3 billion

Edward Mason, Head of Responsible Investment  
*Church Commissioners for England*  
Latest AUM: £7 billion

Michael Quicke OBE, Chief Executive  
*CCLA*  
Latest AUM: £5.97 billion

Lisa Beauvilain, Head of Sustainability & ESG  
*Impax Asset Management*  
Latest AUM: £3.1 billion

Faith Ward, Chief Responsible Investment and Risk Officer  
*Environment Agency Pension Fund*  
Latest AUM: £2.7 billion

Pierre Jameson, Chief Investment Officer  
*Church of England Pensions Board*  
Latest AUM: £1.9 billion

John David, Head  
*Rathbone Greenbank Investments*  
Latest AUM: £760 million

Nick Perks, Trust Secretary  
*Joseph Rowntree Charitable Trust*  
Latest AUM: £200 million