Mergence supports climate change shareholder vote at Standard Bank

By Brad Preston, Head of Listed Investments, Mergence Investment Managers

On 30 May 2019, shareholders of Standard Bank will be asked to vote on the first climate-risk-related shareholder resolution to be tabled by a South African listed company. This is an important step for shareholder engagement in South Africa and we commend Standard Bank for tabling the resolution and giving shareholders a voice on this important issue.

Globally, most large listed companies calculate and publicly disclose the greenhouse gas emissions generated by their operations. For banks this means disclosing the impact of electricity usage in their own offices, air travel by their staff and the like, but does not take into account the emissions of the many businesses and projects financed by the bank. This resolution, proposed and supported by the RAITH Foundation, Theo Botha and Just Share, would require Standard Bank to disclose the greenhouse gas emissions of the bank's lending portfolio and the amount of funding the bank provides to carbon related assets. In addition, the resolution asks the bank to adopt and disclose a policy on lending to coal-fired power stations.

While the board of Standard Bank has agreed to table this resolution, it has recommended that shareholders vote against it and has outlined its reasons for doing so. Not least among these reasons are the potential impact on the competitiveness of Standard Bank and the practicality of its complying with the specifics of the proposal within the timelines requested.

Over the past decade, banking has become an increasingly regulated industry. The global financial crisis triggered a decade-long wave of increasing regulation in an attempt to avoid a repeat of the high leverage and irresponsible lending that contributed to the 2008 crisis. While this has undoubtedly made global banks less risky, it has also made them less profitable. Globally banks' return on equity (ROE) has taken a step change lower since 2008. While much of this is due to lower leverage, it is also the result of the increasing cost of complying with regulation, a cost that is ultimately paid by shareholders and clients.

And so any call for additional reporting or compliance costs should be weighed carefully. This is just one of the many factors we have considered as fiduciaries representing clients who own six million shares of Standard Bank, in deciding which way to vote our client's shares.

Balanced against the costs of increased regulation is the urgent need for all businesses to play a role in the move to a lower carbon economy. Climate change poses a grave threat to our way of life and the long-term sustainability of many businesses. Its costs are often disproportionally borne by the poorest citizens of the globe. The fact is that the financing choices of banks can play a major role in promoting carbon reduction. Bank lending and investments make up a significant source of external capital for carbon intensive industries and we believe that banks' shareholders should have access to information on the climate-change impact of their funding decisions.

Note that this resolution does not require any change to Standard Bank's lending practices, it merely calls for increased disclosure to shareholders. We believe that the proposers argue convincingly that Standard Bank should already be collecting and reporting all the information required by the resolution as required by its adoption of the Equator Principles and its reporting to the Carbon Disclosure Project - on a timeline that coincides with the timeline requested in the resolution. In addition, Standard Bank has an internal policy on lending to coal-fired power projects, and the resolution simply requires the public disclosure of that policy.

The Standard Bank climate-risk-related shareholder call is aligned to the Task Force on Climate-related Financial Disclosures (TCFD) of the G20's Financial Stability Board. Under the leadership of Michael Bloomberg and Mark Carney, the Governor of the Bank of England, and supported by the world's largest investment banks, the TCFD represents global best practice and we believe will soon become a standard requirement for large listed financial services institutions.

While the notice of the Standard Bank Annual General Meeting states that the climate-risk-related resolution was proposed by "shareholders holding less than 0.001% of the company's issued ordinary share capital", it addresses an issue that affects 100% of Standard Bank's shareholders. We believe that the resolution is well motivated and deserves serious consideration from shareholders.

Mergence Investment Managers will be voting in favour of the resolution.