



**The
Pensions
Regulator**

Making workplace pensions work

Napier House
Trafalgar Place
Brighton
BN1 4DW

0345 600 0707

www.tpr.gov.uk
www.trusteetoolkit.com

20 February 2020

Dear Peter

Thank you for your letter of 14 February, setting out helpful views from the Department regarding the integration of climate change risks and opportunities into regulatory activities.

TPR understands the importance of the UK Government's Green Finance Strategy and how it provides a clear basis upon which the public and private sector can support environmentally sustainable and resilient growth in financial markets – and we are putting that commitment at the very heart of what we do.

As you rightly point out, the regulator has an important role to play to ensure that those that advise or manage pension schemes clearly understand the nature of the challenge and furthermore have the appropriate processes and mitigations in place in respect of climate change. I have spoken to the Minister about this topic on a number of occasions and will continue to provide him with an update on the progress of our work in this area.

We are working on our strategy for dealing with the financial risks arising from climate change. This strategy will set out what we will do and how we will resource this area. It will also include how we will continue to engage with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). I have asked David Fairs to be the accountable Executive Director to lead on this. David is already attending the Regulators' TCFD Senior Steering Board on our behalf.

As you say, TPR has already taken action and our area of focus is on master trusts, to ensure that climate risk is being considered appropriately by these schemes. We are first focused on the largest schemes and working to embed this within our supervision of master trusts, who are responsible for 16 million savers.

Additionally, we have a 'compliance with the basics' approach for all schemes where it is identified that the basic requirements, such as making the statement of investment principles (SIP) available, have not been met. We will contact schemes where there are failings and this is the approach we may take in the light of the UKSIF report and we will consider enforcement action where appropriate. Where schemes appear unwilling or unable to comply with these types of governance requirements we will encourage them to consolidate into larger schemes such as master trusts, where governance will be more effective.

As we roll out proactive engagement we are including questions for all schemes that come within our relationship supervision approach covering a significant number of savers and we are seeking feedback from trustees on their policies. We want to understand how trustees approach climate change risk so that they comply with the requirements of the SIP, but also how they go about mitigating risks associated with climate change within the investment governance of their scheme/s.

We have also taken steps to monitor the pensions landscape through questions on climate change in our annual governance survey of DC schemes. This allows us to set a baseline against which we can develop our strategy and measure the progress of DC schemes.

We are working alongside DWP colleagues, Government and industry bodies on guidance that will help trustees identify, assess and disclose their scheme's exposure to climate risk.

Consultation on the guidance led by DWP, which is based on the framework of the Taskforce on Climate-related Financial Disclosures (TCFD), will clearly be critical given the tabled amendment to make disclosure mandatory for larger pension schemes. TPR will take an active role in the consultation and will attend the launch at the PLSA investment conference in March. We will encourage trustees to respond to the consultation and will promote the guidance when it is available.

The TCFD recommendations can help trustees implement and evolve their policy on climate change. By applying these, trustees will be better placed to understand what climate-related issues mean for their scheme – and will be better equipped to make decisions towards good outcomes for pension savers.

We welcome the fact that DWP will be putting the recommendations of the TCFD on a statutory footing and we look forward to working with the Department as this legislation progresses.

We will be reporting on climate change adaptation in the occupational pensions sector as you have outlined in your letter. We welcome your suggestions in terms of what the report should cover and will incorporate these into our work.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Counsell', written in a cursive style.

Charles Counsell

Chief Executive