



Department
for Work &
Pensions

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Dear Charles

This letter follows on from the publication of the UK Government's Green Finance Strategy in July 2019 and sets out the Department's views on integrating climate change risks and opportunities into the Regulator's activities. The Green Finance Strategy is a cross-government priority, and the Regulator has an important role to play within this to help pension funds deal with the material financial risks arising from climate change. As you know from your recent meeting with the Minister for Pensions, climate change is a priority for the Department as well as for Government.

Mitigating and managing climate change fits within the role of the Regulator, as it aligns with several of the regulator's core objectives:

- **To protect the benefits under occupational pension schemes of, or in respect of, members of such schemes.** The Regulator published a joint policy statement with other regulators in July 2019. This recognised that climate change presents far-reaching financial risks from both physical factors, such as extreme weather events, and transition risks that can arise from the process of adjustment to a carbon neutral economy. In order to mitigate these risks, trustees must take account of the impact of climate change on their assets – and, where appropriate, on their liabilities.
- **To reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund.** There is a need to consider the impact of climate change in the context of integrated risk management: trustees must consider the strength of the employer covenant in the face of climate change and set their own strategy accordingly.
- **To promote, and to improve understanding of, the good administration of work-based pension schemes.** This includes promoting trustee understanding of the material financial risks posed by climate change, as well as opportunities that may arise.

In the coming months we envisage that the Regulator will wish to set out a strategy for dealing with the financial risks arising from climate change, including how this strategy will

be resourced and implemented and involving continuing engagement with the TCFD Regulators' Taskforce.

We recognise that the Regulator has already taken action, including steps to monitor the pensions landscape through questions on climate change in annual governance surveys of Defined Contribution schemes. It has also been encouraging to see the Regulator's involvement in the Pensions Climate Risk Industry Group, which has made progress developing guidance for pension funds on how pension trustees can address climate-related financial risks as part of their governance processes. The Department will work with the Regulator to put this guidance on a statutory footing as part of the Governance Code required by the Occupational Pension Schemes (Governance) (Amendment) Regulations 2019.

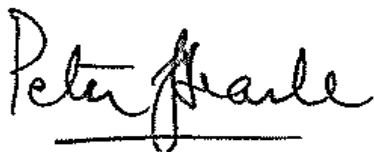
I note that the Regulator has also publicly committed to produce a report on climate change adaptation in the occupational pensions sector under Defra's climate reporting regime by December 2021. This adaptation report provides a key opportunity for the Regulator to conduct in-depth research into the impact of climate change risks on the sector, and to work with government on a regulatory strategy to address those risks.

We believe it would be helpful for the Regulator's adaptation report to cover:

- financial risks and opportunities from climate change that impact the Regulator and trust-based occupational pension schemes
- how the Regulator and those running pension schemes are responding to and managing the financial risks and opportunities associated with climate change
- the Regulator's policy and regulatory approach to adapting to climate change.

We are very much looking forward to continuing working with you in partnership.

With best wishes

A handwritten signature in black ink that reads "Peter Searle". The signature is written in a cursive style and is positioned above a solid horizontal line.

Pete Searle

Director of Private Pensions and Arm's Length Bodies Partnership