THE PENSIONS CLIMATE RISK AND INDUSTRY GROUP CONSULTATION DOCUMENT:

ALIGNING YOUR PENSION SCHEME WITH THE TCFD RECOMMENDATIONS: A CONSULTATION ON GUIDANCE

RESPONSE BY THE SOCIETY OF PENSION PROFESSIONALS

1. INTRODUCTION TO THE SOCIETY OF PENSION PROFESSIONALS (SPP)

1.1 SPP is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPP's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPP is the only body to focus on the whole range of pension related services across the private pensions sector, and through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interest - body or group.

1.2 Many thousands of individuals and pension funds use the services of one or more of SPP's Members, including the overwhelming majority of the 500 largest UK pension funds. SPP's membership collectively employs some 15,000 people providing pension-related advice and services.

1.3 This consultation has been considered by SPP's Legislation Committee, which comprises representatives of actuaries and consultants, insurance companies, investment houses, pension administrators, pension lawyers and product providers.

2. RESPONSE TO CONSULTATION

2.1 Overview

2.1.1 We welcome and support this timely and important consultation by the Pensions Climate Risk and Industry Group (the "**Group**").

2.1.2 In our view the Guide will serve as a helpful resource for trustees (and their advisers) who are looking to understand how to practically go about assessing and managing climate-related financial risks, and effectively reporting decision making (and rationale) to members and broader pension stakeholders.

2.1.3 Below we have set out our comments on the Guide for the consideration of the Group. We would welcome the opportunity to discuss these further with you should that be helpful.

2.2 Timely consolidation of existing advice and guidance

2.2.1 As the Group is aware, there is already a large and rapidly growing body of advice and information for asset owners and trustees concerning climate change and associated financial risks (the various citations throughout the Guide and at Appendix 4 are ample evidence of that).

2.2.2 Whilst this explosion of advice is to be expected given the speed and complexity of the political and regulatory developments since the Paris Climate Agreement in 2015, the breadth and depth of the available information is formidable and could well act as a barrier to trustee engagement on this subject.

2.2.3 We therefore welcome the ambition of the Guide to provide clear, concise and comprehensive advice, from a cross pension industry group, on how trustees might effectively tackle the specific issues associated with climate change related financial risks.

2.2.4 In our view the level of detail in the main Guide is well judged. Any greater level of detail and the Guide would likely become unwieldy and off-putting – more akin to an academic or technical text rather than a useful practical tool for trustees.

2.2.5 Whilst the Quick Start Guide is in our view a good idea (and should be retained) we do think further detail could be added to make it a more meaningful summary of the issues raised in the Guide. Additional Quick Start Guides could also be a useful and efficient way of providing for additional granularity around how the Guide applies to schemes of different sizes and in different funding positions (see 2.4 below).

2.2.6 We would also recommend that the Group considers drawing out from the Guide a short list of key principles and action points for trustees which could be used as a practical summary of the minimum steps that all trustees could take now in relation to climate change related financial risks.

2.3 **Updating the Guide**

2.3.1 In our view the Guide in its current format is a useful summary of current 'best practice' in this area. In that sense the Guide can be seen as aspirational as well as a practical tool for trustees and their advisers.

2.3.2 In order to stay relevant and useful, we would recommend the Guide is regularly updated to take account of new thinking and regulatory/political developments in this area, for example:

(A) climate related disclosure requirements under the Pension Scheme Bill;

(B) the impact of the adoption of the EU taxonomy on sustainable finance; and

(C) the development of new/shared analytic tools and metrics to assess and comparatively weight climate change risks and factors.

2.3.3 This updating and revision process should include assessing whether the TCFD disclosure framework remains relevant going forward or whether a different set of disclosure standards becomes more relevant to trustees as a result of adoption by industry and/or Government.

2.3.4 If the Guide is to be updated it would also be sensible to consider whether it would have more impact if presented through a web based platform rather than a 'standard' policy type document/booklet. This would allow not only for greater interactivity and engagement within the Guide but would also allow for distinctions to be drawn more readily between how the Guide applies to schemes of different sizes and in different funding positions (see 2.4 below). We recognise however that such an exercise would require significant additional time and resource which might not be available to the Group.

2.4 **Greater specification**

2.4.1 The intended target audience for the Guide is clearly very broad – it aims to give guidance to trustees of all occupational pension schemes irrespective of size, resource, complexity and funding position (although we recognise the guide does sensibly recommend a proportionate approach to matters such as scenario planning).

2.4.2 We see the benefit in this approach (particularly at the outset of the Guide); it indicates "best practice" for those schemes who are perhaps just starting to think about climate related financial risks and discourages inertia from trustees of smaller sized schemes who might consider that their size and/or investment approach mean that climate change risks are not relevant to them (or at most something that their asset managers should deal with).

2.4.3 However, having noted the above we do consider there is greater scope to recognise in the Guide that the appropriateness and relevance of some of the recommendations will depend on not only the size and resources of the particular scheme but also its funding position and investment objectives, for example:

(A) should Master Trusts and Superfunds have more stringent assessment and disclosure requirements compared to other occupational pension schemes?

(B) should trustees of schemes targeting buyout in the short term (who will want to manage assets to maximise insurer pricing) be less concerned with undertaking scenario analysis or assessing climate change related risks in general? This would include “bridge to buyout” schemes such as Clara.

(C) is there a greater distinction to be drawn between how climate change financial risks are approached in DB schemes on one hand and DC schemes on the other (irrespective of DC scheme size) given the significant difference in the purpose of the investment powers between those two types of benefit promise?

(D) the Guide should make more explicit its expectations of larger schemes with greater access to resources compared to smaller schemes that potentially have very little access to professional advice in this area.

2.5 **Clarifying what the Guide does <u>not</u> cover**

2.5.1 We think it would be helpful to further emphasis in the introductory sections of the Guide the following points:

(A) The Guide only addresses climate change related financial risks. It does not seek to address ESG factors to the extent they do not relate to climate change. As such, whilst the approach taken in the Guide to assessment and disclosure may help trustees think about how to comply with existing and future ESG reporting obligations it should not be taken as a means of compliance with those obligations per se. The focus on climate change should not detract from the importance of considering other ESG financial factors in trustee investment decision making.

(B) The Guide does not seek to address or engage with the legal question of whether Trustees should or can take into account non-financial factors (such as the ethical and moral views of members) when making investment decisions. Whilst we agree the right approach for the purpose of this Guide is to focus on financial factors (where the law is settled and well recognised) we do think that “non-financial factors” as described in the Law Commission’s 2014 report (and recently endorsed in obiter comments in the Supreme Court) warrant an acknowledgement in the section of the Guide dealing with trustees’ fiduciary duties and taking account of material factors. At the moment the question of non-financial factors is rather conspicuous by its absence.