

ELECTRICITY PENSIONS TRUSTEE LIMITED

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Dear Sirs

Consultation on guidance: Aligning your Pension Scheme with the TCFD Recommendations

Introduction

Electricity Pensions Trustee Limited ("**EPTL**") welcomes this opportunity to respond to the consultation document issued by the Pensions Climate Risk Industry Group entitled "**Aligning your Pension Scheme with the TCFD Recommendations**" (the "**Consultation**"). EPTL is the Scheme Trustee of the Electricity Supply Pension Scheme ("**ESPS**") which is one of the largest private sector pension schemes in the United Kingdom, with approximately 166,000 members as at 31 March 2019, of whom approximately 21,000 are active members.

ESPS is an industry-wide pension scheme for non-associated employers within the electricity supply industry. Each non-associated employer has its own Group within ESPS, each Group having its own set of Group Trustees, while EPTL is the Scheme Trustee having certain central functions as set out in the scheme documents of ESPS. Originally, all investment powers were vested in the Scheme Trustee. However, over the years, these powers largely passed to the individual Group Trustees to exercise in relation to assets held for their particular Group (after consulting the relevant Group employers). The Scheme Trustee retains power to invest in assets or funds to which individual Group Trustees wish to subscribe, offering a form of pooled investment within the ESPS for individual Groups. At the moment, the investments made by the Scheme Trustee are limited to forestry. Statements of Investment Principles are maintained by each set of Group Trustees. The Scheme Trustee maintains its own Statement of Investment Principles in respect of the limited investments it makes.

EPTL is responsible for the custody of the assets of the ESPS.

The employers participating in ESPS have a separate body, Electricity Pensions Limited ("**EPL**") to represent their interests. This consultation response is given solely on behalf of EPTL.

General Response

EPTL welcomes the guidance set out in the Consultation and fully supports the objective of promoting the active management by pension scheme trustees of their exposure to climate-related risk.

We recognise that the financial risk associated with climate change is an issue of fundamental importance for financial institutions, including pension schemes. As custodians and stewards of our investments, pension scheme trustees need to understand how climate change will impact investment risks and

opportunities and build this into our investment beliefs and strategy in an informed and structured way. The Consultation document is an important contribution to this process.

As trustees, we must also be aware of the evolving views of our members and the undoubted increasing expectation by them that the investment of the funds held by their pension schemes will be in a way consistent with the mitigation of climate change.

We do not intend to respond to the specific questions raised in connection with the Consultation because, as explained above, the investment duties under the ESPS vest almost entirely in the trustees of each Group and they can respond separately as they consider appropriate. However, we would comment that the principle of alignment of pension schemes disclosures with the TCFD recommendations, which we support, depends for its effectiveness on:

- A common taxonomy and methodology for the identification and measure of greenhouse gas emissions;
- Compulsory adoption by investee bodies of the TCFD recommendations using that common taxonomy and methodology; and
- Compulsory independent audit of investee bodies' TCFD disclosures.

We would urge Government to promote these objectives alongside the more proactive role financial institutions, as investors, are rightly being asked to play.

As a final point, we consider it appropriate for the guidance to address the issue of its application to pension schemes with atypical structures where all investment duties may not be vested in one party. This, of course, includes the ESPS. As the only investment managed by EPTL is a specific fund with one narrow asset class (ie forestry) there is no scope for EPTL to consider alternative investments, apart from within the asset class itself. It is a matter for the individual Groups and their Trustees to decide whether to invest or disinvest from this asset class. It will be particularly important to take account of this distinction given the possibility of further regulation to make compliance with this guidance, or equivalent duties, compulsory for pension scheme trustees (of larger schemes, at least) – for example, under the Secretary of State's regulation-making powers under the Pension Schemes Bill currently being considered by Parliament.

We would be happy to have further discussions with you, or to arrange for our advisers to do so, if it would be helpful for us to elaborate any of the above points.

Yours faithfully

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Joanna Matthews, Chair
Electricity Pensions Trustee Limited