HSBC

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Dear Stuart

Consultation on the Guide for Trustees on Integrating Climate-related Risk Assessment and Management into Decision Making and Reporting

The Pension Scheme Executive ("PSE") of the HSBC Bank (UK) Pension Scheme felt it would be valuable to share a number of lessons learned and reflections having recently completed the Scheme's third annual TCFD report. This is in place of providing a complete response to the guidelines in full since the Trustee has undertaken many of the recommendations already. Where specific issues have been identified we have flagged how this may be reflected in the guidelines either as caution to users of the guide, or for the authors to consider more generally.

Over 2020 the Trustee is reviewing its approach to managing the risks associated with climate change and will be looking to share more widely any material progress that is made. Hence the contents of this note focus on the practicalities of producing a TCFD report as well as previous challenges and how they have been overcome, rather than specific aspects of the Trustee's climate-related policies that have worked well.

Scenario analysis

The Trustee has conducted stress testing of both the DB and DC sections' portfolios. The stress tests were consistent with the PRA's Life Insurance Stress Tests, as recommended by the industry guidelines and both the analysis and underlying assumptions are currently under review. The Trustee is developing its thinking of how the results of stress testing can be used to influence future behaviour with respect to the management of climate risk and so is supportive of the guideline's recommendation to carry out the stresses.

The Trustee believes that climate change scenarios should be prescriptive in order that asset owners' analysis is undertaken on a consistent basis which will make the review and comparison of the scenario test results more meaningful.

Carbon footprinting

A large portion of the resource requirement to produce the Scheme's TCFD report is spent carbon footprinting the portfolio. To date, the Trustee has not been able to draw a great deal of value from this exercise. The carbon footprint of the Scheme's portfolios does not directly impact their value - therefore using the carbon data as a risk metric is a challenge. Nevertheless, the Trustee supports greater disclosure and so will continue to gather the data. Unfortunately, comparing year-on-year has also been difficult:

- For the DC section, the Trustee groups similar managers into distinct options for members to self-select. E.g. Active UK equity may be made up of multiple managers, but members only see one option.

This approach is consistent across the reporting and communications visible to members and so was repeated for the TCFD report. However, when one of the underlying managers was changed, it meant the aggregate was no longer comparable with previous years impairing its usefulness for members to interpret.

- The Trustee reports the Weighted Average Carbon Intensity (Tons of Carbon emitted per million dollars of revenue) as recommended by the guidelines. The Trustee is expecting the 2020 values to be difficult to interpret as the reduction in carbon emissions over the year is offset by a fall in business revenues due to COVID-19. Benchmark comparability should still be possible following the pandemic, however a number of the portfolios target a high tracking error or do not have investible benchmarks and so it is not possible across all managers.

- The data available is only meaningful for the Scheme's equity investments as coverage for a number of the credit mandates is less than half.

The takeaway we would like to raise is that by reporting backward looking metrics the Trustee does not enhance its control over present challenges and, in itself, does not necessarily lead to better decision making. We recommend the guidelines make this clear to users. We suggest having a clear objective and rationale for gathering the data before starting the process, understanding the limitations of the data and planning for how investment strategy changes will impact carbon footprinting results.

An additional consideration we flag is the use of data providers to do the calculations for the report. The Trustee uses one data provider to do all of the calculations across the different portfolio mandates to ensure consistency of methodology. Before other Trustee boards select this option, we recommend to check with the provider what their data licenses allow them to publish, and whether any permissions will remain consistent. We have come across instances where we have been precluded from publishing Scheme data due to the use of a third-party for the calculations. That being said, asset managers may have equal barriers to allowing data be published and may not have consistent calculation methodologies. The guidelines correctly point out that disclosing metrics is voluntary, however it is worth highlighting that it may be impossible for some schemes to disclose in the way they wish.

Writing the statement and receiving sign-off

We suggest the guidelines highlight that sufficient consideration be given to how the statement will be written and how it will be signed off. As the recommendation is to include the statement in the Annual Report and Accounts this means that it requires reviews from multiple committees, including Audit & Risk and the main board. We suggest advanced planning and integrating the statement into annual business plans for all stakeholders.

We hope you find the information contained within this note valuable and informative for the guidelines. We are highly supportive of the industry group and the guidelines that have been produced. We look forward to being of help where possible as the industry group digests the results of the consultation.

Yours sincerely

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