

ABI response to DWP's consultation Taking Action on Climate Risk: Improving Governance and Reporting by Occupational Pension Schemes

March 2020

About the ABI

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over **310,000** individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

The UK insurance industry manages investments of over **£1.6 trillion**, pays over **£16 billion** in taxes to the Government and supports communities across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

The ABI represents over **200** member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

ABI response

1. As formal supporters of the Taskforce on Climate-related Financial Disclosures (TCFD) the ABI welcomes the opportunity to respond to this consultation. We support the Government's aim to encourage large organisations to improve their climate-related risk reporting and we believe that this is the right framework to use in order to achieve this. The ABI and the sectors we represent are committed to tackling climate change. To supplement the industry's commitment to embedding the TCFD principles many of our member firms have joined the Net Zero Alliance and have reviewed their own operational strategies and setting science-based targets.
2. The ABI believes that the regulations as written will reach the policy intent set out by the DWP. However, there needs clearer consensus between regulatory approaches for these disclosures to be to be fully effective. We urge the DWP to work with the Financial Conduct Authority to ensure that TCFD regulations achieve the same effect for all types of pension arrangements.
3. In our response we will not be answering questions individually, instead we have focused our answers on three areas where we believe the regulations can be clarified or improved.

Timing

4. The regulations as proposed come into force on 1 October 2021. The ABI favours quick implementation of the regulations on TCFD although we ask the Department to consider that many schemes operate on a calendar year reporting cycle. A 1 October implementation date therefore means a scheme would need to report on the last 3 months

of 2021. The ABI would like to see reporting requirements come into force from the start of the first day of a new reporting cycle, which for many schemes would be 1 January 2022.

Clarifying Guidance on Governance Activities

5. The draft regulations state that trustees must be able to satisfy themselves that any person who undertakes governance activities in relation to the scheme, or who advises or assists with respect to governance activities, takes adequate steps to identify, assess and manage climate-related risks and opportunities which are relevant to the scheme. While part 3, paragraph 18, of the statutory guidance clarifies the undertaking, advising or assisting with respect to governance activities, the ABI believes it preferable for the guidance to provide clearer direction so as only to capture employees of scheme funders who are directly involved in making, advising or supporting such decisions. Current draft guidance could be interpreted to include those who are indirectly involved in activities such as employees providing data to decision makers.

“As far as they are able”

6. The ABI requests the DWP to change the term “as far as they are able” which is used in paragraph 6, 10, 15, 16, 18 and 19. The phrasing lacks definition and differs from recognised legal concepts such as “best/reasonable efforts” or “reasonably practicable”. We recognise that similar phrases exist in guidance from The Pension Regulator¹ and were used in the DWP regulations on transaction cost disclosure². But the equivalent rules and guidance for firms and independent governance committees³ on transaction costs referred to “best endeavours” and “reasonable steps” to provide this information (as well as cross-referring to the DWP regulations), and to the requirements applying to IGCs “to the extent that such information is available”.
7. The ABI favours the widely recognised and supported approach taken by the Financial Conduct Authority and the Financial Reporting Council in the context of TCFD which asks listed companies to “comply or explain” along with guidance on circumstances in which it is reasonable to “explain”. The consultation document states that “regulatory alignment across the finance sector is vital” in this spirit we strongly urge the DWP and the FCA to use the same language given that the overall aim is that TCFD principles will eventually apply consistently across the economy.
8. Further, the regulation does not specify the same type of defence being available to third parties who may be contracted by trustees. The ABI asks the DWP to clarify if they were omitted intentionally.

¹ <https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-3-funding-defined-benefits->

² <https://www.legislation.gov.uk/uksi/1996/1715/regulation/25>

³ <https://www.handbook.fca.org.uk/handbook/COBS/19/5.html>