Consultation questions:

Taking action on climate risk: improving governance and reporting by occupational pension schemes

Question 1

Scope and Timing

Do you have comments on the proposals to change the "reference date" used for the purposes of determining whether a scheme is in scope, or the arrangements made for schemes which obtain their audited accounts later than 1 October 2021, or 1 October 2022?

Do you have comments on the draft regulations on scope and timing?

We feel it is appropriate that the forthcoming regulatory obligations have not been postponed. As clearly reflected in the proposal, governance and risk management requirements fall into their fiduciary duties.

This was already acknowledged in the latest regulatory developments included in The Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 (UK), The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (UK). These regulatory modifications confirmed that climate change is to be included within their effective system of governance and Statement of Investment Principles (SIP).

We believe Trustees have had time to adapt to these regulations which were announced in 2018. As such, we expect that their governance and investment strategies to have been strengthened in line with these announcements.

This new regulatory proposal is welcome as it will clearly improve climate risk governance and transparency among the pension fund industry approaches to climate change. In addition, we believe it will also send a signal to investees companies that investment community are taking risks associated with climate change seriously.

We also agree that the two phased application of TCFD obligations may be beneficial in the case of smaller trust schemes, as they can learn from the experience, challenges and best practice of bigger schemes.

However, as previously mentioned, climate change is already a be part of governance, investment decisions and stewardship policies, and so if these are not included there will be a breach of regulatory obligations and duty of care. In connection with this, governance requirements should have been considered to be adopted at the same date for both types of trust schemes.

Moving forward the reference date is appreciated as schemes will be able to know earlier when they meet the requirements and will give them enough time to prepare. We welcome the amendment to allow that schemes have seven months to prepare the report which can guarantee that some of those affected schemes will have the same time to produce a high-quality report at the end of their period.

Question 2

Trustee knowledge and understanding

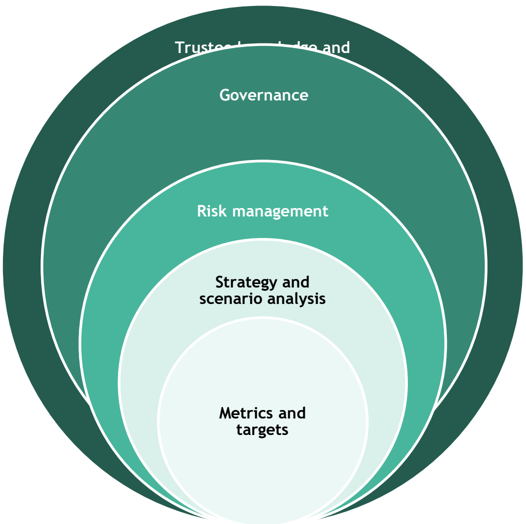
a). Do you have any comments on the draft regulations on trustee knowledge and understanding?

b). Do you have any comments on the draft guidance?

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

Having adequate knowledge and understanding is a prerequisite which will underpin an adequate governance, risk management, strategy and metrics and targets response.

The following image clearly represents this principal foundation:



Individuals trustees must have knowledge and understanding of the principles to identify, assess and manage climate related risks and opportunities. Similarly, corporate trustees must ensure that any person which exercises these functions have an appropriate level of knowledge and understanding.

We believe that there should be verification of the Trustees knowledge and understanding of climate related risks, supported by training and potentially interacting with specialist climate risk consultants.

We understand that this proposal and associated guidance does not want to be prescriptive into what will be an adequate level of understanding and knowledge. Nonetheless, the guidance does provide some pointers as to what might be expected with regards to having sufficient knowledge to interpret analysis and take action in light of the results and also advise provided by third parties. We assume that that the burden of the proof falls on the trustees to satisfy this requirement.

Engagement with consultants, asset managers and investee companies will help to ensure they understand and manage these risks. They will have to challenge information received and ensure that as they engage, they meet and satisfy their duty of care. In this regard, they should have the information available of emissions in order to understand their exposure as part of their duties.

Also, the following points should be considered to ascertain their level of understanding and difficulties:

- What is the verification procedure to ensure Trustees both understand the information provided to them, and can critically challenge this information? We believe clearer guidance should be provided on this point,

- How they will Trustees assess companies reduction of emissions commitments? Net zero commitment vary significantly amongst corporates. Without robust challenge, there is a risk of 'greenwashing' responses to challenges. Trustees will need to engage with companies to ensure meaningful reductions are incorporated into strategic and business plans.

- What are the policy implications in relation to the energy transition? Trustees will need to understand the different pathways to transition in each sector to understand how emissions reductions will be achieved. This question is connected to the previous one in relation to emissions commitments.

Question 3

Governance

a). Do you have any comments on the draft regulations on governance?

b). Do you have any comments on the draft statutory guidance?

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We agree that trustees are responsible for the implementation and maintenance of a climate related risks and opportunities system. Trustees, as part of their duties, have ultimate responsibility and so need to ensure and supervise that the system in place is adequate for climate risks. Trustees will need to discuss regularly these matters at board level in all their meetings. As part of this supervision, we also agree that they have to establish and maintain the following processes:

> a. any person who undertakes governance activities should take adequate steps to identify, assess and manage climate risks and opportunities. They could be employees of the scheme, employees of the principal or controlling employer and employees of the scheme funder or strategist (in the case of a master trust)
>
> b. any person who is not a legal advisor and who advises or assists the trustees in relation to governance activities, has also taken adequate steps to identify, assess and manage climate risks and opportunities that are relevant to the matters that they are advising or assisting.

Within these supervised people, trustees should ensure that they have assigned their responsibilities and roles. They shall also make sure that these people governing the scheme have the adequate knowledge and resources on climate issues.

We also concur that asset managers should not be included within this governance regulations, since these duties are ultimately lie on the shoulders of the trustees. In many schemes the management of investment is executed by asset managers which provide data and information to trustees in relation to their assets' climate exposure.

Even though they are excluded from this provision, trustees will have to ensure that their Statement of Investment Principles (SIP) covers their arrangement with asset managers. Since asset managers have to align their investment strategy with the trustees' SIP according to the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (UK), regulation 2(2)(a).

Consequently, asset managers must ensure that their investment strategy of the trustees asset include their climate policies. Trustees shall make sure that their asset managers are considering their policies and views when they are proving information and holding their accountable. As such, we welcome further collaboration with the FCA in this regard.

A consequence of this is that trustees should have internal capability to carry out an assessment and identification of critical issues and cannot rely on asset managers to realize these functions. Consequently, they will have governance structures in place, and an understanding necessary to assess data and information provided by asset managers as well as their responsibilities and possible liabilities.

Questions for further analysis:

What is the role of legal advisors in relation to governance? We understand that as the consultation has pointed out they have been excluded because they do not "*provide advice relating to investments, liabilities or covenants*". However, we deem it necessary that there is more clarification in this regard.

Whilst legal advisors do not provide advice in relation to investment, we believe they should understand the risks that the scheme is facing in order to provide effective legal advice. This legal advice can be used to ensure that the adequate structures on supervision and oversight and even definition of responsibilities are in place in other to satisfy these new responsibilities. For instance, as it is known that oversight and responsibilities of climate change falls into their fiduciary duties which has a legal component, consequently, legal advisors should be consulted in order to satisfy their responsibilities.

Legal advisors have also to understand in terms of liabilities that can arise against the scheme in regard to these issues as well as to their arrangement with asset managers and holding other counterparties responsible for their failure on taking action. These possible outcomes should be explained to the trustees in order to guarantee that they comply with their duties. Hence, we do not agree that legal advisors are excluded as we deem it necessary to obtain their advice in the governance structure and processes to satisfy and fully understand their legal duties.

Question 4

Strategy

a). Do you have any comments on the draft regulations on strategy?

b). Do you have any comments on the draft statutory guidance?

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We agree that trustees must identify climate risks and opportunities over the short, medium, and long term on an ongoing basis, and understand implications these risks have on investment and funding strategy (when applicable).

The time periods related to short, medium, and long term have not been defined which we also concur, and depends on the scheme's liabilities and obligations to pay benefits which will shape appropriate time boundaries.

It is recognized that risks and opportunities are related to the TCFD recommendations. In the following image, we include a summary of associated risks and opportunities:

CLIMATE-RELATED RISKS AND OPPORTUNITIES
RISKS
PHYSICAL RISKS
Chronic risks: Long-term changes associated with climate change.
Acute risks: Event-driven, included the increase in the likehood of extreme weather events.
TRANSITION RISKS
Policy risks: Adoption of regulations and national policies to mitigate and adapt to climate change.
Technology risk: Technological improvements that support the transition to a low-carbon economy.
Market risk: Supply, and demand are altered due to climate change risks and opportunities being considered.
Reputation risk: Customers and stakeholders' changes in the perceptions of the organization.
LITIGATION RISKS
OPPORTUNITIES
Resource efficiency: Reductions of operating costs by implementing energy efficiency measures and broader materials,
Energy source: Decreasing energy costs using low emission energy
Products and services: Increase of competitiveness creating new low-emissions products and services.
Markets: Improvements in their position in the market through a diversification of their risk by seeking opportunities in new markets or
Resilience: Development of capacity to manage the climate-related risks and seize the aforementioned opportunities.

The regulations also state trustees must regularly assess the impact of the climate risks and opportunities on the investment strategy and funding strategy (when applicable). We agree that financial impacts are important and should be identified. However, we believe there should be clarity on whether the trustees have also to define the short-, medium- and long-term impacts as it has not been differentiated in the proposed regulations.

We appreciate that the guidance clarifies that the investment strategy includes asset allocation, the selection of investment mandates and portfolio construction. Funding strategy is referred to the "*strategy by which the trustees expect to have sufficient assets to meet the expected future payments due from the scheme*".

Furthermore, the guidance also explains how trustees should undertake the identification of risks and opportunities:

- Single DB scheme or DC scheme with no member choices: whole scheme
- Scheme with more than 1 DB section: level of each section. They can pair together assets, liabilities and funding with similar characteristics.
- DC schemes: calculate for each popular default arrangement offered (A popular default arrangement is considered to be one meeting the definition of default arrangement in regulation 1 of the Occupational Pension Schemes (Investment) Regulations 200517 in which 250 or more members are directly invested, irrespective of whether they are actively contributing)
- Schemes providing both DB and DC benefits: separate analysis.

We agree with the analysis will be different based on the schemes.

Question 5

Scenario Analysis

a). Do you have any comments on the provisions on scenario analysis in the draft regulations?

b) Do you have any comments on the proposal that relevant contracts of insurance are within scope for scenario analysis?

c) Do you have any comments on the draft statutory guidance on scenario analysis?

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We do not agree with the use of at least two scenarios. We think that to drive discussions trustees should include between three to four scenarios.

The drivers that are used for choosing a scenario analysis are the following:

- the potential impact on the scheme's assets and liabilities of the effects of the global average increase in temperature and of any steps which might be taken (by governments or otherwise) because of the increase in temperature in such scenarios;

- the resilience of the scheme's investment strategy in such scenarios; and

- where the scheme has a funding strategy, the resilience of the funding strategy in such scenarios.

Based on these drivers, trustees must include a scenario in which the global average global temperature is within the range of 1.5 degrees Celsius above pre-industrial levels, to and including 2 degrees Celsius above pre-industrial levels.

They also must include another scenario which we understand to constitute more than 2 degrees, hence it could be between 2 up to the highest temperature predicted in climate models.

We do not agree with the choice of only two scenarios. We think that analysing three to four scenarios could provide a better understanding of the range of risks that may present themselves. The following list constitutes our reason why adding at least three scenarios will be better than the proposed two:

- Trustees may choose a 1.5- or 2-degrees scenario and then a 6- or 4-degrees scenario which could affect the range of potential responses to these risks.
- The TCFD recommendations guidance, the NGFS as well as the stress test BoE exercises all have included at least the exploration of three scenarios.
- The selection of scenarios could depend on the risks that are exposed as many risks will occur in the medium to long term: IEA, IPCC…, so in many cases adding more scenarios will help to understand more in depth the changes.

We agree with the regulations in which scenario analysis is to be undertaken in the first year that the requirements are applied. However, we do not concur with the government proposal that after the first-year scenario analysis shall be carried out every three years.

We think that the tools are not mature enough yet to only be exercised every 3 years. The tools and analysis are evolving and, consequently, scenario analysis should be conducted every year. This is also supported by TCFD recommendations. We understand that governance, risk management and metrics and targets need to be reviewed periodically and in the case of governance and risk management in an ongoing basis. Having said this, scenario analysis shall be carried out once a year to ensure that the trustees are including and considering its impacts and resilience.

As we know, risk management and strategy are informed through the results of scenario analysis. If this exercise is only mandatory every 3 years, there is the risk that in that period of time in between risks are likely to arise which are unaccounted for, and unless scenario analysis is conducted on a yearly basis, trustees will not be responding adequately to their risks which may be material. Hence, their governance structure may not be adequately adjusted to the magnitude of the risks faced.

In the case that the government decides to continue with the proposal of undertaking scenario analysis every 3 years we believe additional guidance is required, since it may be difficult to fully understand its potential impacts on the scheme's assets and liabilities and its resilience.

The government has recognized the following situations which may lead to a review:

- A material increase in data availability such as asset managers disclosures which could lead to greater data available;
- A significant/material change to the investment and/or funding strategy;
- The availability of new or improved scenarios or events that might reasonably be thought to impact key assumptions underlying scenarios; or
- A change in industry practice/trends on scenario analysis.

Furthermore, we also agree with the definition that scenario analysis should be conducted "as far as they are able" which suggests that all assets may not be included, and so a qualitative approach to begin with. However, we would like to highlight that if scenario analysis is not undertaken fully in the first year, we do not believe that scenario analysis undertaken every three years would then be appropriate, as the trustees should ensure that most/all assets are included to ensure robust coverage.

Our proposal on this regulation will be:

- Evaluate three to four scenario analysis including one within the range of 1.5 degrees Celsius above pre-industrial levels, to and including 2 degrees Celsius above pre-industrial levels.
- Execute scenario analysis every year.
- Only consider scenario analysis on a three yearly cycle if all assets in the scheme are included in the analysis. If all assets are not included, a yearly analysis should be

carried out up and until all assets and schemes are covered, at which point a switch to three years can be considered.

Within the guidance it mentions:

"64. *Trustees should also consider whether they could gain more insight from undertaking a simpler form of scenario analysis in-house than out-sourcing it to a third-party. Trustees should keep in mind that the purpose of scenario analysis is to better understand the risks and opportunities posed by climate change to the scheme and to inform their strategy and investment decisions accordingly. Trustees should not assume that this will be best achieved by using the most complex, sophisticated and/or expensive tools available*."

Having examined the guidance, we would like to point out that in many cases the use of third parties will be beneficial, as they will be challenging decisions and assumptions made by Trustees, utilising up-to-date market insights.

We are aware of the complexity of this exercise and the necessary steps to obtain a consistent approach between practitioners as well as third party providers. As in many cases complex, sophisticated, and expensive tools may not be the response for every regulated entity.

However, we would like to highlight that a certain investment in terms of time should be expended on this. The best approach will be to use free resources available and propose to pay for certain tools in cases that the available data may not provide all answers or to address certain data gaps. We would like to see further guidance on this.

Question 6

Risk Management

a). Do you have any comments on the draft regulations on risk management?

b). Do you have any comments on the draft statutory guidance?

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We think that the regulations in relation to risk management are flexible and not highly prescriptive. There is a clear determination that trustees have full responsibility in establishing and maintaining a process to identify, assess and manage climate related risks which are integrated within their overall risk management.

The guidance develops the assessment and identification of climate related risks. It contains certain guidance of some aspects which may lead to the evaluation and detection of climate related risks such as:

- Regulatory and technology developments: mitigation policies.
- Comparison of their position to peers or competitors.
- Identify physical risks and their impacts.
- Reputational risks: Identifying relationships between events and news, and business and financial impacts. For instance, the oil and gas divestment campaigns and pressure could be a reputational focus.

These are some aspects that have been included. We consider the following that can also help to assess those risks and their magnitude:

- Stewardship and engagement with companies which can help to understand their risk on their portfolio.
- Engagement with asset managers and the data provided.
- Sensitivity to different carbon prices which may affect the fund.
- Litigation risks: consider potential litigation against the trustee arising for not sufficient steps taken: McVeigh v. Retail Employees Superannuation Trust which was decided and REST set that climate change was material and a financial risk into their investment, market, reputational, strategic, governance and third-party risks and they agreed to implement a net-zero carbon footprint by 2050 goal and monitor their progress against TCFD. They also shall account for other litigation cases against government or part of the public climate strategy litigation and companies.
- Consider campaigns and potential movements against the trust: for example: Make my money matter.
- Scenario analysis results which may shape the magnitude and urgency of certain risks.
- Investments in new technologies and EU taxonomy aligned projects.

We do not think that a highly explicit list of aspects to consider should be considered. Nevertheless, we would like to highlight that a higher level of understanding of risks may lead to better assessment of their potential impact.

We also agree that the traditional risk management approach of likelihood and impact is used to assess and prioritize risks, and include additional considerations such as vulnerability and speed of onset to better understand material climate risks., although, clearly scenario analysis is likely to be needed to fully understand these aspects.

We think that the guidance cannot cover all issues that can arise while integrating climate change into risk management:

- Ensure that the trustees have enough level of understanding and knowledge of climate change to comprehend the results.

- The guidance does not provide advice in relation on how to integrate climate change into the existing risk management system. This can lead to trustees choosing to directly analyse the risks and then consider how to manage them which is linked to Step 2 and 3 of the IRM process. However, we have found in some instances that this method may not be appropriate, because they may choose to start assessing without having acquired a general understanding of climate risks in the first place. For this reason, we would recommend more guidance in relation to the integration.

- Review risk appetite to include climate change: we have found in some instances risk appetite may have to change to include climate change issues.

- Manage risks: set strategy/funding plans and contingency plans to deal with material climate risks. Identification of the risk owner and communication procedures.

- Monitor the system in place and controls: We do not think is appropriate to support the revision of the identification and assessment every year. We think that it should be an ongoing process at least every 3 months. If not, there is a risk of deviation on the the

- Procedures to report to the trustees.

We also do not think that the guidance properly addresses stewardship obligations in relation to the management of climate risks. We think that more guidance is needed, because it could lead to potential harmful responses due to the external pressures that asset owners are facing in terms of divestments.

This is supported by the TCFD recommendations for asset owner which recommend that:

"*Asset owners should describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks to improve data availability and asset owners' ability to assess climate-related risks*."

Hence, it is recognized that engagement with investees companies shall be part of their assessment and management of these risks.

Trustees SIP shall include their exercise of rights and engagement activities taken in relation to their investments (The Pension Protection Fund (UK), regulation 4(2)(a)(iv)). This is exercised after having acquired their investment; however, it is a substantial part because they need to guarantee that investments will continue being in the best interests of the beneficiaries considering that some will be invested for a substantial period of time.

Hence, climate change should be included in their maintenance, monitoring, and exiting policies to secure long-term returns. The following are aspects that we consider that the guidance could potential address:

- How they have sought beneficiaries' views (where they have done so) and the reason for their chosen approach;

- Set up more specific expectations on what is expected with stewardship commitments and how they are used to manage risks. This is substantial as they may be exposed to potential litigation and potential campaigns such as Make my money matter.

- Consider publishing their policies and potential list on engaged companies.

- Publish a list of voting records and justification of their decisions.

- Engage with their proxy and/or service providers and asset managers in relation to their obligations and how they are achieving their commitments when they use the exercise of rights and engagement on their behalf.

- Engagement with international initiatives in relation to climate change voting and activism: Climate Action 100+, Net-Zero Asset Owner Alliance, etc.

- Support to/relationship with the UK Stewardship Code.

Additionally, as part of the TCFD recommendations further disclosures for asset owner recommends…

"*Asset owners should describe how they consider the positioning of their total portfolio with respect to the transition to a lower-carbon energy supply, production, and use. This could include explaining how asset owners actively manage their portfolios' positioning in relation to this transition.*"

…have not been addressed within the guidance and regulations. We think that it provides a good general understanding in relation to how well prepared the scheme is in relation to the challenges of the energy transition. We recommend that the regulations and/or guidance provides more detail on this point. In addition, it could consider the possibility to assess it as a metric.

Question 7

Metrics

a). Do you have any comments on the draft regulations on metrics?

b). Do you have any comments on the draft statutory guidance?

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We welcome that the regulations propose the selection of at least three metrics without being overly prescriptive. Trustees must select within the following at least:

- one metric which gives the total greenhouse gas emissions of the scheme's assets ("absolute emissions metric")

- one metric which gives the total carbon dioxide emissions per unit of currency invested by the scheme ("emissions intensity metric")

- one other metric relating to climate change which does not meet the description in sub-paragraph (a) or (b) ("additional climate change metric") such as a portfolio alignment metric or Climate value at risk (VaR)

We also concur with the new proposed regulation that they must be obtained on an annual basis at least in relation to scope 1, scope 2 and scope 3 greenhouse gas emissions of the scheme's assets.

Then this data shall be used on the calculation of the aforementioned metrics and identification and assessment of climate risks and opportunities. They shall also obtain the relevant data required to calculate their selected additional climate change metric.

There are some questions that we think may have not been properly addressed on the regulations/guidance:

- What happens when companies are not disclosing their scope 3 of emissions? As we know, Premium listed companies will have to be disclose in accordance with TCFD reporting which includes their scope 3 of emissions. Until now mandatory regulation only included scope 1 and 2, and so scope 3 were voluntary. Even then when companies report their scope 3 emissions, they may only report on their material categories without covering all. We will like further guidance to explain these data gaps.

  Additionally, the guidance of category 15 of GHG protocol explains:

  "*The financial institution should account for the scope 3 emissions of the light bulb producer (e.g., scope 3 emissions from consumer use of light bulbs sold by the manufacturer) when scope 3 emissions are significant compared to other source of emissions or otherwise relevant*"

  which may imply that not in all cases scope 3 emissions of investees companies shall be accounted. We would like that the government clarifies these possible circumstances.

  The standard developed by PCAF details that scope 1 and 2 shall be included and that scope 3 will be included in the following years using a phased approach on listed equity and corporate bonds and business loans and unlisted equity:

  - From 2021: energy (oil & gas) and mining
  - From 2024: transportation, construction, buildings, materials, and industrial activities
  - From 2026: every sector

- We also accept the flexibility provided within the guidance that some of the data which will be obtained will be easily on public equity and corporate debt. While the calculation on other assets such as derivative-based investment strategies, private market investments and property funds may be more difficult.

  Due to these accountancy challenges, trustees can calculate the emissions based on asset class or fund level and also in relation to their portfolio. We would like to suggest that this may be the most preferrable option to many trustees, however we propose that trustees develop a roadmap in which their scope 3 emissions category 15 improves over time in terms of quality as well as inclusion of assets and funds.

In relation to this, we encourage that asset owners participate in industry initiatives and consultations to improve the transparency and consistency of their disclosures such as participating on the Partnership for Carbon Accounting Financials (PCAF).

In fact, the PCAF guidance has only developed methodologies for six asset classes: listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages and motor vehicle loans. The standards does not provide methods to calculate: private equity that refers to investment funds, green bonds, sovereign bonds, loans for securitization, exchange traded funds, derivatives (e.g., futures, options, swaps), initial public offering (IPO) underwriting, and more.

- Additionally, a further problem that is always contemplated is that absolute emissions metric and emissions intensity metric are mainly based on past emissions without quantifying future emissions. Hence, they do not consider any progresses in relation to possible business plans which include the Paris Agreement.

However, we do not agree that the trustees do not have to calculate their own emissions scope 1, scope 2 and scope 3 (apart from the category 15). We really think that they should not be excluded from this exercise and also take responsibility of the emissions of their own operations.

As a matter of fairness and solidarity, trustees should calculate those emissions, because they are going to be, for instance, accounting the emissions of electricity consumed by their investees companies while, at the same, they are exempted to calculate their own electricity consumption. We believe that they should disclose these emissions as well even if there are minimal since every emission counts.

Furthermore, we may suggest to the companies that they are tracking or has considerable exposure they should be targeting and engaging with them more closely and checking their emissions reductions.

Question 8

Targets

a). Do you have any comments on the draft regulations on targets?

b). Do you have any comments on the draft statutory guidance?

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We welcome that trustees have to set a target in relation to at least one of the metrics that they have used to calculate. However, there is a risk that setting one target will not cover all the challenges that the trustees are facing. Especially, if we take into account that there are many data gaps and it may be the case that not all assets are including which can lead to a small portion of the scheme being covered by targets.

For that reasons, many trustees may be inclined towards setting ambitious actions such as 1.5 degrees Celsius or bellow 2 degrees aligned with the Paris Agreement and then, that commitment will be leveraged into setting targets all over the metrics calculated to drive emissions reductions consistent with the pathways. Setting these overall emissions targets may seem beneficial and the calculations improve and more sections of the fund, sectors and asset classes are included.

We also agree that targets can be measured once a year, because they are heavily dependent on companies own reports. However, as we suggested before as part of their stewardship policies trustees should be engaging with them to obtain data as well as to reduce their emissions which will lead to a reduction in the trustees emissions.

Question 9

Disclosure

a). Do you have any comments on the draft regulations on disclosure?

b). Do you have any comments on the draft statutory guidance?

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We agree with the publication of the disclosures and how they have to be published on a publicly available website, accessible free of charge which is adds transparency. In relation to its content, we expect that the trustees address each of the four TCFD pillars as far as they are able following the previous considerations. The higher quality and comprehensive disclosures the more likely will be and their control of climate risks.

However, we need to raise an issue. The report is published independently of their annual accounts as a standalone report. We would like to highlight that climate change is a financial risk and as such it has been recognised to pose under current financial standards a portfolio loss on investors (IFRS 7 Financial Instruments: Disclosures) which shall be accounted. Because there is a high risk that some trustees consider this exercise as an additional report without including their significant financial implications into their annual accounts.

Question 10

Penalties

Do you have any comments on the draft regulations on penalties?

Please include in your answer any comments you have on whether you consider that they meet the policy intent stated in this chapter.

We agree on the approach that sanctions will be exercised on 2 ways following a compliance notice or when the trustees contravene a provision in relation to part 2 which Is the information to be included in the TCFD report. We will welcome that the government provides more guidance in relation to how these contraventions are going to be monitored.

Question 11

Impacts

In relation to the policy changes we have made, do you have any comments on the regulatory burdens to business and benefits, and wider non-monetised impacts which are estimated and discussed in the draft impact assessment?

Having considered that the governance, strategy and risk management activities should have already been included, we think that the estimations of the general costs of metrics and targets as well as scenario analysis could be reasonable. Although, they will depend on many cases on the scale of the fund as well as the materiality of the risks that it is facing since they may require further tools, engagements and third parties advise.

Question 12

Any other comments

Do you have any other comments you would like to raise?

I would suggest that some extra guidance that the government could exercise could be in providing certain models of contracts with asset managers and other third-party providers such as proxy providers which cover certain of the obligations on data, information and exercise of rights that have been discussed within the previous components.