Make My Money Matter

10 March 2021

Make My Money Matter response - Consultation: Taking action on climate risk: improving governance and reporting by occupational pension schemes

Introduction

Make My Money Matter is a people-powered campaign fighting for a world where we all know where our money goes, and where we can make sure it's invested to build a better future.

We welcome the efforts DWP is making to improve climate risk governance and reporting by occupational pension schemes. DWP recognises the threat to members savings posed by the climate emergency and the commercial opportunity provided by the climate transition. The Chancellor's announcement on mandatory TCFD reporting provides vital leadership in the run up to COP26.

In order to tackle climate risks, meet member concerns and align with the UK government position on net zero, we have been calling on all UK pensions funds to align their portfolios to the 1.5 degree pathway, requiring net zero emissions by 2050 and a halving of emissions before 2030 (our net zero principles are listed at the end of this document).

Leading UK pension funds from Nest to Scottish Widows, and Aviva to Smart Pensions, are doing so. They are doing so because they see it as their fiduciary duty, while noting too, that their members want action to tackle the climate emergency. The majority of UK pensions, on some estimates, are still aligned to between 3 to 4 degree warming, thereby contributing to the climate emergency, while putting member savings at risk. This is not acceptable.

Response

Trustee knowledge and understanding: We have been concerned with non-compliance of Trustees on meeting ESG regulations, and worry that Trustees may be challenged to meet climate requirements too. We hope government and regulators can address this capacity gap, for regulators to be firm on compliance and avoidance of box-ticking. Progress will also require Investment Consultants committing to provide Paris Aligned advice to Trustees.

Scope and timing of the regulations: We have a climate emergency, and actions in the next decade count most, where all the science points to the need to halve emissions before 2030. Every effort should be made to speed up action to manage risks and reduce emissions. We therefore think more pensions funds should be in scope including those below £1bn in size, since climate risks are faced by all funds, whatever the size. We welcome an earlier interim review of progress in 2023, important to ensure learning impacts quickly on improving action. Finally, we wish to see an emphasis on action as well as reporting; disclosure of emissions data is a key first step, but it must be married to real action in terms of emissions reductions.

Metrics, disclosure and costs. Targets: Standardised and consistent metrics are vital. We believe reporting on TCFD should be made publicly available. This should also include a simple, member focused summary, that covers pension fund alignment to 1.5 degrees, 5 year targets for emissions reduction, % emissions reduction from previous year, emissions/£ invested etc. As data improves it will become easier to provide projected emissions / temperature information. Make My Money Matter would be happy to work with DWP and industry on approaches to better communications with members.

Given that effective stewardship will be an important requirement for driving the climate transition, a metric for measuring this should be considered, including separate efforts to require corporate AGMs to have a mandatory advisory vote on the company's transition plan.

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Make My Money Matter – approach to Net Zero

Meets our principles

1. Ambitious pace of emissions reductions, year on year.
2. Transparent targets, accountable to members.
3. Meets international best practice, and support a just transition.

For pension funds

Net Zero: The Trustee must set out an investment strategy to achieve net zero emissions by at least 2050, in particular halving emissions by at least 2030, with alignment to the 1.5°C ambition in the Paris Climate Accord. Targets must include Scope 3 emissions.

Targets and Accountability: The Trustee must set immediate 5 year targets, communicate plans to savers, and report yearly on progress against annual emissions reduction benchmarks. Trustees must ensure all underlying corporate assets across all portfolios have a credible climate transition action plan, with annual assessment of company performance, by instructing fund managers to adopt a 'Say On Climate' approach.

Internationally recognised frameworks: The approach must support a just transition and align with best practice frameworks, such as the Net Zero Asset Owners Alliance Protocols and the IIGCC Net Zero Investment Framework.