



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

**RESPONSE FROM ICAS TO THE
DEPARTMENT OF WORK AND PENSIONS**

10 March 2021

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Background

ICAS is a professional body for more than 22,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have over 4,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

Overall comments

The ICAS Pensions Panel welcomes the opportunity to comment on the Department of Work and Pensions (DWP) Consultation 'Taking action on climate risk: improving governance and reporting by occupational pension schemes'.

We also welcome the publication of the [TCFD roadmap](#) for entities published (in November 2020) jointly by the UK Government, the Financial Conduct Authority and The Pensions Regulator (TPR). We note that the roadmap sets out how private sector entities, including private sector pension schemes, are expected to comply with Task Force on Climate Change-related Financial Disclosures (TCFD) reporting requirements. We would welcome, in due course, the inclusion of public service pension schemes and public sector bodies within the roadmap.

We recognise that this consultation is focused on the statutory guidance and draft regulations which will implement the climate governance and reporting requirements for larger private sector pension schemes. We also welcome the changes made to the initial proposals, for example, the carving out of annuity contracts from the definition of 'relevant assets' for the purposes of applying the requirements.

However, we remain concerned that timescales for implementing the governance and reporting requirements could encourage a 'tick box' approach to compliance. We have particular concerns in relation to the tight timescales for trustees to acquire an appropriate level of knowledge and understanding and around data quality, although we do acknowledge that the approach taken towards the TCFD reporting requirements goes some way to recognising data quality challenges.

We also comment in our response on the increasing complexity of the investment reporting requirements placed on pension schemes, which have evolved over time. We believe that there is scope to rationalise these requirements, including the approach to requiring some investment information to be included within scheme annual reports.

Our responses to the consultation questions are included in the Appendix.

We are content for our response to the consultation to be made public. Any enquiries should be addressed to Christine Scott, Head of Charities and Pensions at cscott@icas.com.

Consultation report findings and related questions

Scope and Timing (chapter 2)

We have made provision to carve out bulk and individual annuity contracts for the purposes of determining whether the asset threshold at which the requirements apply has been met.

We have also made provision for determining the assets of “earmarked schemes”. We are consulting on this proposed change.

A common TCFD report publication deadline will apply for all schemes in scope of 7 months from their respective scheme year end.

The “reference date” used for the purposes of determining whether a scheme is in scope, has been changed from [years ending on or after] 1 June 2020 to [years ending on or after] 1 March 2020 for the first wave of schemes in scope, and from 1 June 2021 to 1 March 2021 for the second wave. If audited accounts for the relevant scheme year are not obtained by the date the requirements would otherwise apply, then they will apply from the date the audited accounts are obtained. We are also consulting on both of these proposed changes.

Reporting duties will not apply to trustees of non-authorised schemes where the scheme’s relevant assets are zero at scheme year end.

We have brought forward the start date for our review of the requirements to the second half of 2023.

Question 1

- a) 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?
- b) Do you have comments on the draft regulations on scope and timing?

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

Response

We support the proposals in so far as they align the TCFD reporting requirements with the timetable for scheme trustees to obtain audited accounts.

We also recommend that the statutory guidance explains more clearly how all the reporting requirements which comprise the TCFD report are expected to relate to the period of the scheme’s annual report. It would make sense, for example, for schemes to report on how they have performed relative to the metrics and performance targets compared to the previous scheme year, so it would be helpful to understand how schemes could transition towards such an outcome.

Further commentary within the statutory guidance would also be welcome around the date schemes are first required to comply with the governance requirements. For example, tranche 1 schemes are required to comply from the date the regulations first come into effect, but for some schemes this date is after the end of their scheme year.

We continue to have reservations about the tight timescales for the implementation of the governance and TCFD reporting requirements and believe that schemes could face significant challenges meeting these.

We support the proposals with regard to their scope in so far as annuity contracts are carved out for the purposes of determining a scheme’s relevant assets. We also support plans to commence an interim review of the effectiveness of the regulations in the second half of 2023, notwithstanding our overall reservations on the implementation timescale.

Trustee knowledge and understanding (chapter 3)

Trustees must have an appropriate degree of knowledge and understanding of the principles relating to the identification, assessment and management of climate change risks and opportunities.

Question 2

- 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.

Response

We have concerns that there may be insufficient time for trustees to acquire the requisite knowledge and understanding of climate change risks and opportunities within the required timescale for complying with the governance requirements, in particular for tranche 1 schemes. For lay trustees acquiring the requisite knowledge and understanding will be particularly challenging.

We recommend that the DWP works with TPR and the industry to ensure that the trustees have access to training material and other resources they may need to meet the trustee knowledge and understanding requirements set out in the regulations to a meaningful extent. We believe that it would be appropriate for TPR to update the Trustee Toolkit to cover the new climate governance and TCFD reporting duties of trustees.

It will be important for TPR and the industry to manage any conflicts of interest that may arise where the providers of training will also benefit from fees from additional services provided to assist schemes meet their obligations under the new regulations.

We note that the material on trustee knowledge and understanding published within the statutory guidance is in itself not statutory. However, there is merit in including this guidance within the same document as the statutory guidance to ensure that there is guidance about the climate change governance and reporting requirements available in one place.

Governance (chapter 4)

We have clarified our proposals in respect of “persons managing the scheme”. Trustees must establish processes for satisfying themselves that those who undertake governance activities in relation to the scheme and those who advise or assist the trustees with respect to governance activities – otherwise than as a legal adviser – are taking adequate steps to identify, assess and, where relevant, manage climate-related risks and opportunities.

Question 3

- a) Do you have any comments on the draft regulations on governance?
- b) Do you have any comments on the draft statutory guidance [on governance]?

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

Response

The statutory guidance on governance is clear and comprehensive meaning that expectations placed on schemes by the regulations are clear.

However, there may be real world challenges for trustees in establishing sufficiently robust climate governance arrangements to comply meaningfully with the regulations within the intended timescale.

These challenges will include the upskilling of scheme employees and challenges for advisers in upskilling so that they are in a position to sign up to revised agreements with their clients.

We would like to see schemes succeed in achieving the standard of governance requirements set out in the statutory guidance and we are concerned that if insufficient time is given for compliance, that this will be detrimental to achieving the policy objectives.

We have no specific comments on the draft regulations on governance.

Strategy (chapter 5)

Regulations will set out what factors trustees must consider in setting time horizons. Trustees must disclose their chosen time horizons. Trustees will not be required to describe in their disclosures the climate-related risks and opportunities relevant to the scheme which are identified by persons other than the trustees.

Question 4

- 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.

Response

We have no specific comments to raise on the draft regulations or statutory guidance on strategy.

Scenario analysis (chapter 6)

Trustees must undertake scenario analysis in the first year and every three years thereafter. In other years they must review whether or not circumstances are such that they should refresh their analysis, or, if they decide not to, explain why. We are also providing more explanation in the statutory guidance on what is expected of trustees in respect of the requirement to undertake certain activities “as far as they are able”. The meaning of “as far as they are able” is defined in the draft regulations.

Question 5

- 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.

Response

While we recognise that data quality is improving, we believe that pension schemes are likely to have difficulties in obtaining data of sufficient quality to be able to undertake meaningful scenario analysis within the timescales for complying with the TCFD reporting requirements.

Another real world challenge for some schemes will likely include the consolidation of data obtained from different asset managers, so the consistency of data available to schemes as well as the quality is important.

We welcome the inclusion within the regulations of a reasonableness test in the form of a definition of “as far as they are able”, which will be helpful to schemes as they develop and report on scenarios, metrics and performance targets.

However, we believe there is some merit in schemes being given a period of time, specified in regulations, to develop meaningful scenarios and undertake ‘dry runs’ before schemes are required to publish their scenario analysis.

The value of these reports to the public will rest on data quality and therefore the quality of data in the investment chain is likely to have an impact on trust in TCFD reports. If public expectations about TCFD reporting by pension schemes are not met, this could have a detrimental impact on trust.

Risk Management (chapter 7)

No changes.

Question 6

- 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.

Response

We agree that climate risk management arrangements should form part of a scheme's integrated risk management arrangements. We have no specific comments on the draft regulations or statutory guidance in this regard. However, it is important that trustees are able to allocate time and resources to addressing particular risks in a manner commensurate with the scheme's exposure to those risks.

Metrics (chapter 8)

Trustees must select a minimum of two emissions-based metrics, one of which must be an absolute measure of emissions and one which must be an intensity-based measure of emissions, as well as one additional climate-related metric. Trustees will be required, as far as they are able, to obtain the data required to calculate their chosen metrics on an annual basis – rather than quarterly. The "as far as they are able" provision has been extended to include not just the collection of data, but also the calculation and use of the 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.

Response

In our response to the previous consultation we stated that "Good quality data will be needed to prepare meaningful metrics so we agree that a comply or explain approach to the inclusion of metrics in the TCFD report is particularly important in this area".

We continue to have concerns about the quality and the consistency of the data that will be available to pension schemes with the proposed timescales for implementation.

We have no specific comments on the draft regulations or statutory guidance on metrics.

Targets (chapter 9)

Performance against targets is to be measured annually rather than quarterly. We have also provided for annual review of any targets, for trustees to determine whether they should be maintained or replaced.

Question 8

- 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.

Response

We understand that it is progress towards performance against targets that is to be measured and reported annually.

Our comments on data quality and timescales notwithstanding, we support the reporting of progress towards the achievement of performance targets set by the scheme on an annual basis, giving schemes the option as to whether to take stock of progress more frequently if they choose to do so. We also support the ability of schemes to undertake an annual review of the performance targets they have set.

However, the objective of the policy is for investment decisions to remain squarely in the hands of scheme trustees and we agree that this should be the case. Therefore, there is a risk that a requirement to set performance targets could influence investment decisions relative to there being no performance targets.

We have no specific comments on draft regulations or the wording of the statutory guidance.

Disclosure (chapter 10)

The website address of the published TCFD report must also be added to the annual funding statement for DB schemes to make it more widely known to members. The Chair of trustees must sign the TCFD report, although the signature itself need not be published. Trustees who have not yet produced their first TCFD report are required to inform TPR whether the period for doing so has ended in the scheme return.

Question 9

- 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.

Response

We have no specific comments on the draft regulations or statutory guidance on disclosure.

Penalties (chapter 11)

No changes.

Question 10

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.

Response

We have no comments on the draft regulations or statutory guidance on penalties.

Impact assessment (chapter 12)

Question 11

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?

Response

We have no specific comments on the draft impact assessment.

However, in relation to the increased costs schemes will incur in both implementing changes to their governance and risk management arrangements and in maintaining these, it is important for trustees to be able to sanction expenditure without needing the explicit approval of the sponsoring employer.

Other comments

Question 12

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

Response

We believe that the DWP should review the investment reporting requirements placed on pension schemes, with a view to rationalising these.

Some investment reporting requirements are to be met within pension scheme annual reports, with aspects to be made public, yet there is no requirement for pension schemes to file or to make their entire annual report, including their financial statements, public.

In the case of the TCFD report, the requirement is to carry a link to where the report is publicly available.

Where aspects of investment reporting fall within the scope of the annual report, scheme auditors are required to read the information which, under auditing standards, is considered to be 'other information'. There is no requirement to provide reasonable assurance on 'other information', but auditors do need to read it and report, in their auditor's report, if they have identified any inconsistencies between the 'other information' and the financial statements.

TCFD reports are not 'other information' in the context of auditing standards. Therefore, it would be helpful for this to be clarified in the statutory guidance.

Given the above, we believe there is scope for reviewing the investment reporting requirements placed on pension schemes to determine if they are fit for purpose, including the approach to requiring some investment information to be included within scheme annual reports. The regulations underpinning the investment reporting requirements which have evolved over time are complex and difficult to interpret, leading to more of a compliance mentality.