BRUNEL
Pension Partnership

Mr Guy Opperman MP
Minister for Pensions & Financial Inclusion
The Department for Work & Pensions
Caxton House, Tothill Street
London SW1H 9NA

Denise Le Gal
Brunel Pension Partnership Ltd
101 Victoria Street
Bristol BS1 6PU
www.brunelpensionpartnership.org

10 March 2021

Dear Minister,

Taking action on Climate Risk: Improving governance and reporting in occupational pension schemes

Thank you for our exchange of letters and the follow-up meetings between our respective teams. I would like, first, to acknowledge your leadership, and that of the team at the Department of Work and Pensions, in ensuring climate risk receives greater consideration within pension funds. We warmly welcome that progress.

We are very supportive of DWP's work and, when we do flag issues and raise concerns, we do so aware that our industry is still developing its thinking, tools and techniques in this area. As a result, there are limits on what can be achieved in some areas in the near future – limits often outside the control of the DWP.

We also acknowledge that you raised many of the same issues in the response to the initial consultation. We therefore only reiterate them here to demonstrate our agreement and provide insights into what we see as priority areas.

Key points

- We welcome an acceleration of the timeline for the review of requirements on smaller schemes
- We welcome continued liaison between departments and regulators to ensure a coherent framework of requirements along the investment chain
- We would seek assurances on how exactly "as far as they are able" is correctly applied, to ensure good oversight
- We recommend getting smaller funds started on addressing TCFD asks relating to governance, particularly skills and knowledge, as soon as possible
- We are concerned that different climate metrics can tell funds different things about their portfolios – we support flexibility, but not if it creates confusion
- We commit to continue to support the DWP in developing and promulgating best practice

Interdependences and COP26

Pension funds' management of climate risk and action on climate risk are inextricably linked to a wide range of other policy areas. What we can reasonably expect of funds will be always be limited, in risk terms, by the policy and markets in which they operate.

In your last letter, you asked if we had any views on the pricing of environmental damage, specifically carbon pricing. We strongly support a wide range of mechanisms that make polluters pay and would advocate such measures as fines and custodial sentences for company directors, so that they genuinely deter direct environmental damage.

We also support the implementation of smart and effective carbon pricing. We do, however, acknowledge the complexity in designing mechanisms, such as carbon taxes and levies, that do not widen social inequalities. We note the steady increase in the cost of carbon (EU ETS) during 2020/21 and welcome the rising seriousness of the related policy debate. To prevent any offshoring of carbon emissions, a global approach is needed – and nowhere more than at COP26. We would welcome a firm commitment to a price/s[1] on carbon in line with policy commitments to Net Zero. We believe this needs to be supported by the establishment of a taskforce to make formal recommendations to support country-by-country implementation. A price on carbon and carbon equivalents is critical to the proper functioning of the markets in which pension funds invest.

Current consultation

Overall approach. We welcome an acceleration of the timeline for the review of requirements in the expectation that the UK's hosting of COP26 will provide innovation and developments that can inform the review in 2023. We also welcome the UK government's decision to make disclosure mandatory by 2025, but we will be advocating for stronger, swifter implementation in select areas, most specifically, the disclosures made by investee companies of all sizes. We welcomed the FCA's announcement relating to UK-listed companies and the related roadmap but will continue to urge its more rapid roll-out.

As the consultation recognises, disclosure in non-equity asset classes is woefully inadequate and forms a significant barrier to pension funds' own disclosures. We agree that those at the top of the investment chain should initiate change, and therefore strongly support your ongoing dialogue with other financial regulators to ensure that regulation is coherent up and down the investment chain. We remain concerned that Covid-19 may further exacerbate delays in corporate disclosure requirements. Any delays will hamper both the effectiveness of these regulations and the success of governments worldwide in achieving Net Zero.

Role of TPR: Risk management, skills development, knowledge acquisition. Inadequacies in data, infrastructure and other areas do set parameters on climate risk management, but robust oversight still prevents inaction in this area. We believe the role of The Pensions Regulator (TPR) is critical, if resourced appropriately, to support and challenge funds on these matters. We seek reassurance on how the matter will be managed so that all the hard work will not have been in vain.

We are therefore supportive of requiring smaller funds to make headway on the governance aspects of the TCFD, particularly in relation to building their own skills and knowledge and to integrating these guidelines into their current risk frameworks. We believe this could be best achieved through the TPR. TPR provides advice on risk management as well as online trustee training. We believe companies should be expected to complete the training and integrate the guidelines unless they can demonstrate pre-existing expertise in this area.

We recognise that funds can often be concerned about resources. We believe funds that have experience developing their approach could support less knowledgeable funds in DWP-run workshops and seminars. If DWP welcomes the idea, Brunel would aim to support any such measures.

[1] https://www.lse.ac.uk/granthaminstitute/publication/how-to-price-carbon-to-reach-net-zero-emissions-in-the-uk/

Scenario analysis. We welcome clarification on the frequency of reporting relating to scenario analysis. We would recommend that, where practical, scenario analysis is incorporated into the triennial review of investment strategy design.

We believe it would be worth clarifying that, in instances where funds have already undertaken scenario analysis that meets the incoming requirements, they wouldn't have to needlessly repeat it until due for renewal.

Our own investigation of scenario analysis tools, those covering both transition and physical risk, showed that they can be quite expensive. Many of the tools are very sophisticated and are designed to support those directly managing assets. However, we have struggled to identify tools that work well for pension funds that are trying to make sense of aggregated data or that can be used on a regular basis. We will continue to investigate options, noting that innovations come to market all the time. But we welcome the support of the DWP to encourage the market to develop low/no-cost solutions for pension funds.

Metrics. As an extensive user of climate data, we recognise different climate metrics are useful in identifying different climate risks and opportunities within portfolios. However, the selection of metrics for external reporting needs to be carefully considered and we would welcome further clarification from the DWP or the TPR. Clarification should equip beneficiaries with meaningful information to hold to account those responsible for their pension fund. Pension fund committees need certainty that the data they receive from their asset managers provides real insight into risks and opportunities. The annex provided by the DWP document is helpful in identifying some of those metrics. However, they also need data that enables them to compile an overall picture of the fund, so they see evidence of their managers' narratives on governance, strategy and risk. We believe that further clarification is needed on what is most helpful to end-beneficiaries over the near term and during the first phase of roll out. We would be happy to operate as one of the funds supporting this work as we further develop TCFD reporting for our own funds and our partner funds.

We welcome the commitment from MHCLG to explore appropriate options for the LGPS, building on the work of the DWP, for implementation in 2023. Brunel Pension Partnership commits to continue to support the work of both public and private pensions in managing and reducing climate-related financial risk.

Yours Sincerely,

Denise Le Gal

Denise Le Gal
Chair of Brunel Pension Partnership
denise.legal@brunelpp.org
Brunel Pension Partnership Limited

Cc:
Mr. Rishi Sunak, MP rishi.sunak.mp@parliament.uk
Mr. John Glenn, MP john.glen.mp@parliament.uk
Mr. David Farrar, DWP David.Farrar@dwp.gov.uk